MARKETING DRUGS AND COSMETICS

By

LOUIS BADER, Ph.D.
Late Professor of Marketing, New York University

AND

SIDNEY PICKER, M.C.S.
President, Namerc Inc. and Natalie Louise Inc., New York, N. Y.

SECOND PRINTING

D. VAN NOSTRAND COMPANY, Inc.

TORONTO NEW YORK LONDON

NEW YORK
D. Van Nostrand Company, Inc., 250 Fourth Avenue, New York 3
TORONTO
D. Van Nostrand Company (Canada), Ltd., 228 Bloor Street, Toronto
LONDON
Macmillan & Company, Ltd., St. Martin's Street, London, W.C. 2

First Published March 1947
Reprinted December 1949

PRINTED IN THE UNITED STATES OF AMERICA
BY LANCASTER PRESS, INC., LANCASTER, PA.

PREFACE

The purpose of this volume is to set forth the basic principles underlying the marketing of drugs and cosmetics and to answer many of the problems continually arising in these operations. Although it is true that certain companies have been highly successful, there have been thousands of undisclosed commercial failures brought about by a lack of understanding of the fundamentals of sound business practice.

This book has been written for the prospective manufacturer who will encounter marketing problems, for the drugstore proprietor, for the junior executive who is seeking an overall picture of marketing, for the advertising man who is handling drug or cosmetic accounts and seeking answers to merchandising problems, and also for the student in organized courses in marketing and merchandising.

At the outset, there is a discussion of "What and where is my market?" followed by an analysis of the type of product to be marketed. Practices in the industry are described, particularly drugstore problems. The many ramifications of product packaging, selling to dealers, market plans and organizations, and displays are explained and coordinated. Special attention is given to the export market. Also, there are separate chapters on price legislation and government regulation.

In preparing this volume, the authors have drawn principally on their business and teaching experience. However, help was proffered by many individuals, and acknowledgment is hereby made. Special thanks are due the following:

Elliot Odell, Advertising Director, Fawcett Publications
Thomas W. Delahanty, Associate Chief, Chemical and Drug Division, U. S. Department of Commerce
Prof. George B. Hotchkiss, Professor of Marketing, New York University, School of Commerce
Dan Rennick, Editor, *Drug Topics* and *Drug Trade News*
William E. Lambert, Advertising Director, *American Perfumer and Essential Oil Review*
Fraser Sinclair, Editor, *Drug and Cosmetic Industry*

Grateful acknowledgment is also made to Mr. E. P. Matthiessen, long an authority on drug and cosmetic merchandising, for his critically definitive review of the manuscript.

Nevertheless, the authors assume responsibility for the material contained in the book.

Sincere appreciation is acknowledged to Charlotte Picker and Florence K. Bader for many helpful suggestions, for typing the manuscript, and for their conception of home economics which made it possible for the authors to pursue their tasks with a minimum of discomfort.

New York, N. Y.
December, 1946

L. B.
S. P.

CONTENTS

LIST OF TABLES

LIST OF ILLUSTRATIONS

Chapter 1

THE MARKET

An important question that arises in every business, new or old, is, "What and where is my market?" In all too many cases a snap answer is given, such as X geographical area, or X number of middlemen, and so on. On analysis you will see that neither area nor dealers are your market, except in a superficial sense. Goods are not sold either when shipped into a particular community or when put on a dealer's shelves. They are sold only when the ultimate consumer buys them. People, then, are your market. This chapter tells you how to estimate your market from certain data about the people in a trading area: the number, age groups, employment, sex, incomes. It suggests what makes people willing to buy; it gives data about the size of the over-all drugs and cosmetics market; and finally it suggests how to use these data to work out, roughly, for any community the probable size of the market for a product.

One of the first things a producer or seller of goods must do is to try to estimate the size of the market to which he would sell his product. For drugs, medicines, and cosmetics this would seem to be easy enough. These are old, established, more or less necessary lines of merchandise. People have used them and businessmen have sold them for centuries. Herbs as medicines are referred to in the Old Testament of the Bible; cosmetic containers have been found in the tombs of ancient Egyptian kings. It would seem then that all that is needed is to look up the middlemen in the areas in which you want to sell, and, presto! the problem would be solved. Calculating your market, however, is not as simple as that. The dealers are not the market. They are only part of the machinery for reaching the market.

THE PEOPLE AS THE MARKET

The market for any product consists of the people who are able and willing to buy the product. Even to say this is a simplification of what must be considered. To calculate the market for any product it is necessary to know: (1) the number of people in the trading area in which you decide to sell; (2) their distribution by age groups, employment, sex; (3) their incomes and the proportion they feel free to spend, and (4) what makes them willing to buy.

The Number of People in a Specific Trading Area. It is easy enough to find out how many people there are in any given area in the United States. The United States Census Bureau takes a census every ten years,

and the reports that the bureau publishes furnish many quantitative data about the people. According to the 1940 census there are over 150,000,000 people who might become our market, that is, in the continental United States, its territories, and its possessions. It is estimated that by 1950 the population of the continental United States alone will be more than 144,-000,000. There are many other areas in the world where people buy our products. These areas are treated in Chapter 18.

The census reports break down the population total by states, counties, cities, towns, villages, and farms. Also, estimates of population are made for in-between years; even an unusual population movement like that of the years 1941 to 1943 is estimated.[1] The number of people in a given area at a given time can, therefore, be estimated whenever the information is desired.

Distribution of Population by Age Groups, Employment, Sex. For drugs and medicines the total population constitutes a prospective market all the time. Children and older people are usually more, and those in between usually less, of a market. A study should, therefore, be made of the number of people in each five-year age group in any specific trading area. This information can be obtained from the census reports, or, on inquiry, directly from the Census Bureau. The kind of employment people engage in may also have an effect on the consumption of drugs and medicines. For example, the coal miner might need to offset the lack of sun and the dust inhaled into his lungs, whereas the lifeguard on the ocean beach may need creams to protect his skin from the sun and, unless careful, medicines to cure a bad sunburn. The Census Bureau can also give the principal occupations and the number engaged in each occupation for most areas in the United States.

The market for toiletries is in some ways more circumscribed than the market for drugs and medicines. For many products the market is confined largely to infants and women. They use most of the powders, creams, shampoos, rouges, lipsticks, nail polishes, and so on. The maker of such products must, therefore, break down his market not only by age groups, but also by sex for each of the age groups. If he produces a baby powder, he must know the present and the prospective birth rates and, also, the number of all children, say, under two years of age. If he produces rouge, lipstick, and nail polish, he must know the number of women between fifteen and sixty years of age. If he produces a deodorant, women over fifteen and some men over twenty are his prospects. Any of this information about age groups and sex can be secured from the census reports.

[1] See *Regional Shifts in Population, Production, and Markets, 1939–43,* Bureau of Foreign and Domestic Commerce, Washington, D. C.

✓ **Income of Prospects.** Have the prospects in his trading area the incomes to buy his wares? This is the next question the seller must ask. It is not so easily answered as some of the other questions. For one thing the government does not collect income statistics regularly. For another thing people are not inclined to tell others what their incomes are. But some men have speculated over a period of years on the size of the national income and how it is distributed among the people. Fairly reliable estimates have been worked out. Based on these studies the United States Department of Commerce prepares an annual estimate of the national income and the forces that contribute to it; and every so often the department breaks it down by states on a per capita basis. The reports on income are published annually in the department's *Survey of Current Business.* From these figures of population and income you could calculate roughly, for particular areas, the market for your product in those areas.

The government and others have gone further and made a number of family-budget studies, which show the expenditures for a representative number of families scattered over the country. The most recent of such studies was made for the year 1935–1936 by the United States Department of Labor for cities and the United States Department of Agriculture for rural areas.[2] These studies show just how much families spend for various items including health maintenance and personal appearance. Putting many of these studies together you can notice a pattern of expenditures, with certain percentages of income for food, clothes, rent, and so on to health and personal appearance. Of course the percentages will vary as economic conditions vary, but from these studies you can make certain estimates that, taken with other estimates, will help you to find out the extent of your market.

The Census Bureau since 1929 has made a number of studies of business and from the reports of these censuses you can learn, in a general way, how much people spend in each area in the different kinds of stores such as drug stores, variety syndicate stores, general stores, barber shops, and beauty shops.

From this kind of data it is possible to figure out the total amount of business done in a market in the product you would like to sell. If in addition to this the position of competitors in each area can be estimated then it would be possible to calculate quite closely how much business might be expected from a given area.

Another way to arrive at the market for a product is to note the relationship between total retail sales in, say, drug stores and their relation to

[2] About forty reports cover this study, and are available in libraries. The National Resources Planning Board summarized the reports in one volume, which is also readily available, under the title *Family Expenditures in the United States* (Washington, D. C., 1941).

disposable income. Over a period of years these sales have varied in certain proportions to disposable income. On the assumption that they will continue so to vary, given the estimated income for a year, you can estimate drug store sales for that year. For old established products you could then map your sales, work out the relationship of them to income and estimate your share on the basis of estimated income.[3] Totally new products need the experience of several years before usable estimates can be worked out, as may be noted below. Since elaborate statistical procedures are here involved this type of estimating should be done by a well-trained statistician.

Why People Buy Drugs and Cosmetics. However, valuable as all of this is, it is not enough. It is necessary also to know why people want to buy drugs, medicines, and toiletries. Drugs and medicines are purchased largely to restore or to maintain good health. Few things in life are more desirable or more precious than good health. Without it one is usually in misery and unable to carry on one's work or look after other interests. With good health almost anything seems possible. Few of us want to die. Sickness increases the possibility of imminent death; to prevent that we will do everything we can. Therefore we use drugs and medicines.

What people will do to preserve health is sharply outlined by three recent developments in the drug field. In the early 1920's the sale of vitamins was less than $500,000 annually. In 1945 this product was selling at a rate of $200,000,000 annually.[4] The sulfa drugs were almost unknown in 1937, yet more than ten million pounds in bulk chemical form were produced in 1943, involving many millions of dollars.

Penicillin got into mass production, in many new and large factories, only in 1944; and only in 1945 was it made generally available to civilians. Up to then all of it had been manufactured for the armed forces. During 1943 and 1944 many pleas were made to the president of the United States to order the armed forces to release some of the precious drug in pitiful civilian cases. The sales of this drug will, apparently, also mount into the millions annually as it comes into complete civilian use. It should be noted that a great amount of publicity attended the introduction of these new products and helped substantially in their wholehearted acceptance by the public.

Another spectacular increase in sales over a relatively short period of time was shown by the feminine hygiene products. In the early 1920's the total sales amounted to less than $10,000,000. By 1938 it was estimated that sales amounted to about $250,000,000.[5]

[3] See Louis J. Paradiso, "Retail Sales and Consumer Income," *Survey of Current Business,* Oct. 1944.

[4] *The Index,* New York Trust Company, Summer 1944.

[5] Report of survey by *Fortune Magazine,* Feb. 1938.

Even these tremendous sales of drugs and medicines cannot be accepted as suggesting the exhaustion of the possibilities in this field. In 1935–1936 a national health survey was made.[6] The report shows in detail the number of people affected by various diseases and should be highly suggestive to the drug manufacturers and distributors in indicating the extent of the market for some of their products. Consider, for example, the 6,850,000 reported to be afflicted with rheumatism and the almost 100,000,000 days lost from creative activity annually by these sufferers. Or again consider the 3,450,000 hay fever and asthma victims. They do not lose so many days from work, but the inconvenience from which they suffer causes them to spend millions of dollars annually for various drugs and medical treatments.

On the other hand, there are many chronically ill who spend little or nothing for cure and very little more for relief until advanced stages of their illnesses are reached. This is due partly to the fact that in many cases people do not know what is available and on what they can depend, or their financial condition is such that they have little money for drugs and medicines. Better health education and increased incomes could bring great changes in this respect.

Next to health the most precious and desirable thing, at least among women, is appearance. Some people would even prefer good looks to good health. Good looks or, better still, that characteristic called glamour is a composite of a number of items. Good looks are desired partly to satisfy the ego, but principally to make a favorable impression on others. We want to attract attention and admiration, we want others to know us, and if we are young enough we want admiration to lead to marriage.

What constitutes good looks is usually settled by people. People say he or she is good-looking. The basis of the judgment is usually custom. With us custom has come to decree, for the time being, as far as nature permits, a long, slim body with curves faintly discernible, hair smooth and rather light in color, eyes bright and questioning, teeth white and shiny, skin clear and running to the ruddy complexion type with a slight touch of the brown of sunburn, and bodily movements quick and vigorous.

The clothes should match or complement the color of the hair, the eyes, and the skin with the ensemble effect from hat to shoes, including, among the female of the species, fingernail and toenail colors to match. No body or breath odor should be discernible but rather the odor of a perfume that seems to fit the particular type of personality of the wearer.

Custom decrees something quite different in some other places. Short, fat bodies, dark in color, glistening from a coat of grease, and marked by strong, and to us repugnant, body odors, are not interested in any ensemble

[6] *National Health Survey, 1935–36,* United States Public Health Service, Washington, D. C., 1938.

effect of clothes, but prefer rather the use of body coverings that to us seem anything but attractive. Yet the members of these tribes look beautiful to the others, as truly as our associates look attractive to us.

How acquire the good looks set by custom? Sleep, diet, and exercise help; but they are not enough. So drugs and toiletries are purchased in large quantities in an attempt to secure the desired effects.

Since custom and habit, fad and fashion play a part in influencing our purchases of toiletries, and since these are continually in process of change, producers and distributors must always be on the watch to take advantage of the changes as they occur. Even the growing child must be studied as a part of the market. The juvenile market has always been a good one for medicines. Children now hold a more dignified position in society than formerly, because of their education. Now all finish elementary and many go to high school. Moreover, nearly all attend the movies. These developments have acquainted the child with make-up materials and their value, and they, too, want to use them. This market is important not only because of immediate consumption, but also because these boys and girls are the market of tomorrow. The impressions made now are likely to carry over and contribute to the benefit or harm of a concern's future market.

THE SIZE OF THE DRUGS AND COSMETICS MARKET

We have indicated how important drugs and cosmetics are to the people who make up the market. But how important is the market to those who would produce and sell such products? To be sure, the market is not as big as the food, the clothing, or the automobile market. But drugs, medicines, and toiletries together do add up to a respectable business in size—in fact to hundreds of millions of dollars annually. It is easy enough to look to the past and note almost the precise amount that has been spent for such products. Let us look for a moment at the last census figures. In 1939 manufacturers of drugs and medicines produced goods to the value of $364,985,404; producers of perfumes, cosmetics, and other toilet preparations produced goods to the value of $147,465,585; and manufacturers of insecticides, fungicides, and other related items rolled up $93,443,777—a total value at factory prices of nearly $606,000,000.

The wholesalers of drugs and sundries did a business of over $520,000,000 in 1939. By 1943 this had increased to more than $800,000,000.[7] Retail drug stores in 1945, according to the United States Department of Commerce, did a business of $2,950,000,000, of which over 55 per cent was in drugs, medicines, and toiletries. Other stores like the variety, general, and department stores also did a substantial business in these products, while

[7] *The Index, op. cit.*

barber and beauty shops of course could not have existed without such products.

We are, however, more interested in the future. If a gross national income of $150,000,000,000 is to be realized, then consumption will have to increase greatly in the fields we are considering. Some estimates have been made. One student suggests that the cosmetic business will amount to as much as $690,000,000 in 1946. In fact he says that if the estimated 68,000,000 females in the United States spend as much in 1946 as the war workers did in 1943 the business would amount to $1,200,000,000.[8] Another student expects that the drug industry will do $1,156,000,000 worth of business in 1946.[9] Still another student of the subject expects that drug sales in the postwar period will reach approximately $3,200,000,000 annually.[10] If we add to the drug store figure the sales of the other stores selling drugs and toiletries the total amount of business may exceed $4,000,000,000 annually.

If these figures should seem to border on the fantastic then consider two estimates of actual sales. The Toilet Goods Association estimates sales of perfumes, cosmetics, and toilet preparations to have been 659.9 million dollars in 1945 as against 39.6 million dollars in 1914.[11] An increase of more than 1600 per cent in the thirty-one years! The National Wholesale Druggists Association estimated drug store sales in Washington, D. C. to have been $52,673,000 in 1943.[12] The per capita sales were $67.50 as against $20.50 for the country as a whole. If the per capita sales for the country could be raised to that of Washington, drug store business would amount to nearly $9,000,000,000. Add the business of other outlets and the total would probably come to over $10,000,000,000. Washington is exceptional and we cannot hope to duplicate throughout the country the consumption there. But we can study what causes that high consumption, and make whatever changes are necessary in the drug and toiletry industries to step up consumption throughout the country. Perhaps consumption can be increased by 25 per cent to 50 per cent. That would seem not impossible.

The reader now may well ask, "How profitable are these fields?" Some notion of this may be secured from Table 1, which shows net profits for some of the leading producers and distributors of proprietaries and toiletries during the worst depression this country has so far experienced. The net profits are in some cases 25 per cent of net sales. While these are for

8 L. A. Barber, in *Market Prospects After the War,* United States Department of Commerce, Washington, D. C., 1944, p. 13.

9 Thomas W. Delahanty, *ibid.*, pp. 15–16.

10 *Drug Topics*, Jan. 10, 1944.

11 From a release by the Toilet Goods Association.

12 *The 36 Primary Areas of Wholesale Influence in the Drug Field,* National Wholesale Druggists' Association, New York, 1944.

large companies, every reader will probably be able to recall some smaller producer and several individual retailers who have been in business many years at the same old stand and give every appearance of having enjoyed a prosperous time nearly all of those years. The table shows only listed companies. It is said that some of the smaller concerns make even larger relative profits. There would seem, then, to be a substantial future ahead for these industries.

TABLE 1. NET INCOME OF SELECTED COMPANIES FOR CERTAIN YEARS AVAILABLE FOR DIVIDENDS*

Companies	1937	1936	1935	1934	1933	1932	1931
Abbott Laboratories	$1,612,360	1,415,276	1,135,501	896,959	549,578		
Amer. Home Products	2,875,399	2,825,261	1,729,708	2,033,217	1,996,524	2,648,257	3,374,912
Bristol, Myers Co.	2,197,947	2,275,251	2,232,573	1,966,165	2,156,151		
Coty, Inc.	516,077	216,994	D-236,685	89,762	222,776	521,386	991,721
Lambert Co.	1,191,170	1,309,833	1,570,865	2,281,200	2,313,913	3,92[illegible],119	6,381,003
Lehn & Fink	532,623	685,086	412,870	747,618	807,286	1,244,370	1,45[illegible],164
Parke, Davis & Co.	9,068,304	9,213,124	8,781,293	8,719,368	6,865,538	5,745,685	6,1[illegible],564
H. Rubinstein, Inc.	309,390	215,459	56,494	159,357	182,408	120,945	4[illegible]5,961
Sharp & Dohme, Inc.	999,168	1,123,959	747,846	941,555	975,379	703,479	777,492
E. R. Squibb & Sons	1,312,822	1,219,765	657,585	542,069	1,124,456	1,236,457	1,651,235
Sterling Products	9,016,243	9,241,870	8,308,073	8,289,202	8,161,977		
Vick Chemical Co.	2,953,515	2,709,333	1,044,751	2,417,834	2,339,296		
United Drug, Inc.	1,312,314	2,065,474	1,504,518	1,833,960	D-216,216		
Crown Drug Co.	229,160	269,697	185,512	157,644			
Peoples Drug Store, Inc.	1,059,603	1,328,675	1,121,365	1,194,937	643,589	511,795	621,923
Walgreen Co.	2,755,822	2,784,903	2,320,372	2,558,894	1,820,482	1,663,198	2,045,411

* Poor's 1938 Industrial Volume.

How to Estimate Your Market. What we have said so far is interesting and highly suggestive. But how can this information be used? We propose now to show how to use some of the types of data mentioned above to arrive roughly at the market for the product you produce and want to sell.

Let us assume city *X* in the Middle West. It contains 27,000 families, altogether 100,000 people, 48,000 males and 52,000 females. As income producers one third are in the $750-a-year class, one third in the $1500-a-year class, and the balance in the $2500 to $3000 class with a few running higher.[13] They have certain customs, discovered by a field survey, that taboo bright red lips and colored fingernails, but otherwise their consumption and expenditure pattern fits in with the average, to which some addition must be made because the community contains a higher proportion of

[13] The income data may be secured either directly from the family income study for 1935–1936 made by the Bureau of Labor Statistics, United States Department of Labor, or calculated from that study or from the reports of the national income and its distribution by states made by the United States Department of Commerce. Since the national income changes, a new calculation may be necessary even for each year. How this calculation can be made without undue difficulty may be seen in the article by Louis Bader, "Family Income and Prosperity," *Journal of American Statistical Association,* Sept. 1933. P. D. Converse has demonstrated how the national income can be fitted to county lines and then estimates of trade for counties be made therefrom. See *County Incomes and Trade Movement in Illinois,* University of Illinois Bulletin 4, 1945.

females than the national average. With these data it is possible to say at once that lipstick and colored nail polishes have no market here. But there appears to be a market for all other toiletries and medicines.

The Bureau of Labor Statistics study shows for the middlewestern city of Columbus the following expenditures:[14]

Income	Expenditures per Family Toilet Articles and Preparations	Expenditures per Family Medicines and Medical Supplies
$ 750 + and −	$10.80	$ 8.60
1500 + and −	18.10	13.40
3000 + and −	28.30	17.50

Total expenditures for our assumed city can now be calculated as follows:

	Toilet Articles and Preparations
9000 families at $10.80	$ 97,200
9000 families at 18.10	162,900
9000 families at 28.30	254,700
Total	$514,800

	Medicines and Medical Supplies
9000 families at $ 8.60	$ 77,400
9000 families at 13.40	120,600
9000 families at 17.50	157,500
Total	$355,500

This calculation is purely for illustrative purposes. The producer planning to go into a market would calculate on the basis of all the different income classifications listed in the Department of Labor study, and for any year make allowance for changes in incomes. The study shows that of incomes up to $3000 about 1 per cent is spent for toiletries. After that the proportion decreases to about ½ of 1 per cent. For medicines approximately 1 per cent of incomes is spent up to incomes of about $1500 and then the proportion declines to about ½ of 1 per cent. As the dollar income increases, a considerable increase in dollars expended for toiletries would take place, and vice versa if dollar income decreases. For medicines this would be true also but to a less extent. People must have medicines when ill, and buy them if they can. But an increase in dollar income might enable them to buy all they need. Further increase in expenditures for medicines would follow an increase in population and new medical discoveries. During the past ten or fifteen years medical discoveries have opened new fields for the sale of medicines, and people are now thinking more and more in terms of how to keep well. Medicines that are supposed to prevent illness, such as vitamin preparations, tonics and vaccines, are

[14] See *Family Expenditures in Selected Cities, 1935–1936,* Vol. III, p. 166, and Vol. V, pp. 272–273.

finding an increasing market and may conceivably become as important as any other products in the drug field. With toiletries, as incomes increase, the whole range of such products might be bought to satisfy the desire to be beautiful and glamorous.

The producer who cannot afford to do or have done for him the minute calculating that is possible could make rough calculations as follows: the percentage of family income spent for toiletries works out for all incomes at ¾ of 1. He could get the best figures of over-all family incomes for his market and estimate ¾ of 1 per cent of that as the total market for toiletries plus some expenditure in beauty and barber shops. He would then need to calculate the competition for this total business and work out what his share should be and then lay his plans to secure it. The expenditures study referred to breaks down the toiletries outlays by most of the important items so that the rough calculation worked here may be done in some cases for single toiletry items. The same kind of calculation can also be made for medicines and other items.

Again it should be emphasized that incomes and expenditures change. It has been estimated that for 1943 the national income was $141,000,000,000 and that wage and salary recipients received $100,000,000,000 of this, while recipients of dividends, interest, rents, and royalties received only $13,500,000,000.[15] The result of this distribution would give many more people in the $2000 to $4000 income groups than ever before and products like cosmetics would benefit tremendously. This estimate would require a calculation upward in expenditure for the items in which we are interested.

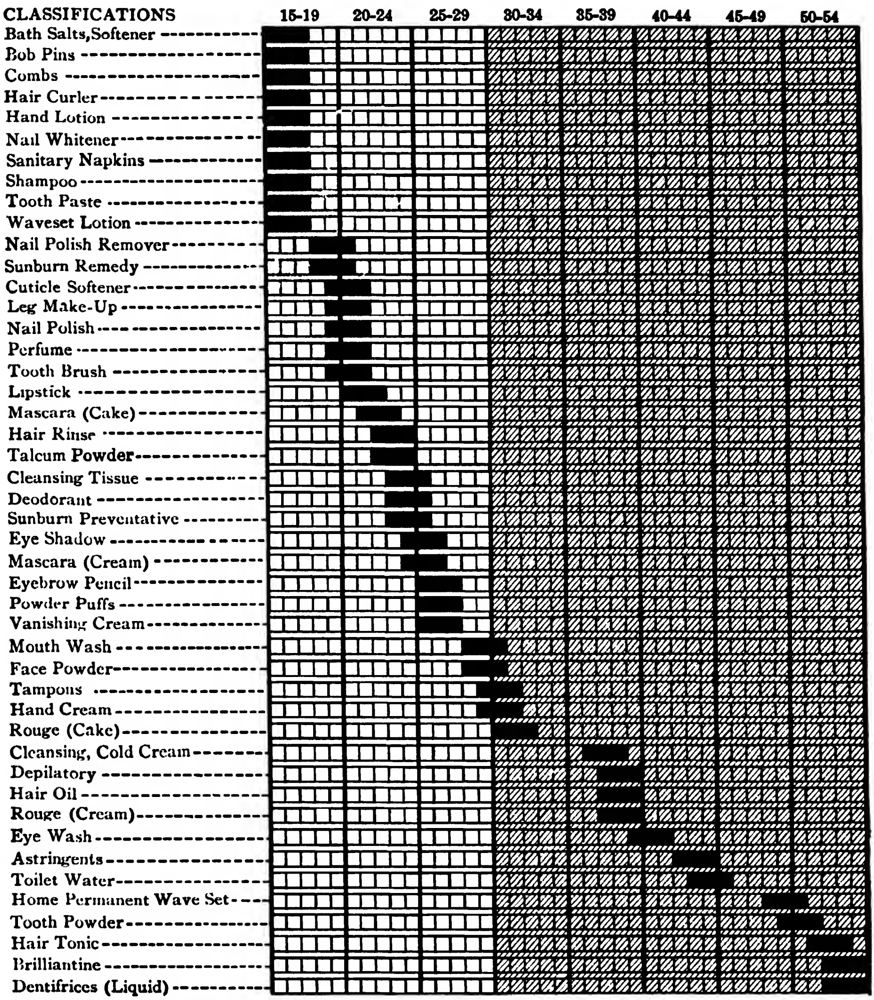
An analysis of the age groups in a trading area gives a definite guide to the market, a clue to the type of advertising to be used, and an indication of the media that might be most successful. Since 1932 Dell Publishing Co. has published an annual *Survey of Beauty,* which gives, among other statistics, the purchasing peaks by ages for various types of cosmetic products. The graph on page 11 is reprinted from the 1945 survey. In the survey are also shown individual graphs of each product. From the composite graph it is seen, for instance, that the peak of the users of nail polish is found in the ages from 18 to 22, of lipsticks in the ages of 20 to 23, and of toilet water in the ages of 43 to 46. In between there will be found many varied age peaks all of them interesting to the potential marketer of any toilet goods product.

The manufacturer then who knows, for example, the number of girls between the ages of 18 and 22 in his trading area will know whether there is much of a potential market for nail polish. If he knows the number of girls between the ages of 20 and 23 he will know something about the prospective market for lipsticks; and so on.

[15] *New York World Telegram,* Feb. 21, 1944.

PURCHASING PEAKS BY AGES

1945



Courtesy of Dell Publishing Co., Inc.

The market as suggested above will also depend on the habits and customs of people. These arise largely as the result of contact with other people and social and geographic environments in which people live. It becomes necessary, therefore, to know where people live and some of their habits and customs. Our 140,000,000 people live on farms, in small villages and towns, and in small and large cities. They work on farms, in

mines, in all sorts of factories, in offices, schools, and at the professions. Some are very religious and many are members of religious sects that impose various taboos, and still many others claim no adherence to a religious group. The facts relative to these characteristics are to be found principally in the United States Census of Population and of Manufactures. They can be used to good purpose in helping to indicate the potential markets for drugs, medicines, and toiletries.

The Postwar Market. The market for drugs and cosmetics will probably be greater in the postwar period than ever before. In fact the statistics we quoted would suggest that it could be much greater, particularly if ways could be discovered to persuade men to use more cosmetics. To increase the market is largely the job of the marketing department and personnel of the business. It would seem to be a greater job than ever before that awaits marketing men and women.

The principal reason for suggesting that the market for drug and cosmetic products will be much larger in the postwar period lies in our income and its distribution. The great national income necessary to maintain full employment—$140,000,000,000 or more in terms of 1942 prices—must be distributed in such a way that many of the heretofore low-income receivers receive larger incomes than before. They were the ones who could not purchase much of drugs and cosmetics. They are the ones who with larger incomes will buy much larger quantities of such products than formerly. They constitute the larger part of our population, so it is easy to determine how greatly they are likely to affect the purchases. Medicines and toiletries are likely to be among the chief beneficiaries of this change in income. In fact Paradiso's study (referred to on page 4) shows an increase of 58 per cent for drug stores between 1939 and 1944 as against 20 per cent for all retail stores and 43 per cent for all stores carrying nondurable items.[16]

[16] *Survey of Current Business,* p. 10.

Chapter 2

THE PRODUCT TO BE PRODUCED AND MARKETED

This chapter treats primarily of an analysis of the product we propose to market or are marketing, the general classification in which it falls, and the important facts that must be studied to market the product successfully. Production factors of drug store products are treated; the necessity for making a study of the physical characteristics of the product, the importance of preliminary consumer tests, and the problems of large-scale production. Marketing factors are dealt with: mistakes to avoid, reasons druggists buy certain products, product imitation, counterfeiting, competition, variations in purchasing power, consumer fashion trends, the life of the product, consumer reaction to price, and the gaining of consumer confidence. Other problems that the manufacturer must consider are treated briefly: patents and trademarks, government regulations on labeling, and the proper classification of products and their outlets.

The next question confronting those who would take up the business of marketing drugs and cosmetics is the type of product to be produced and sold and the factors that must be considered in connection with its production and marketing. First let us look at the types of products that make up this field.

TYPES OF PRODUCTS

The drug or cosmetic product may fall into one of the following groups:

1. Ethical products
2. Proprietary products
3. Toiletries and cosmetics
4. Drug sundries

Ethical Products. An ethical product is one that exactly follows the specifications listed in the *United States Pharmacopeia* or the *National Formulary,*[1] or that may result from new discoveries announced in *New and Nonofficial Remedies,*[2] or medical compounds announced in scientific publications, which are accepted by the medical profession and later listed in the above standard publications of specification. Most ethicals are sold on prescription, but there are some, such as aspirin, Epsom salts, mercuro-

[1] Referred to hereafter as U.S.P. and N.F.
[2] N.N.R.

chrome, and others, that may be bought for self-medication. Since the product itself must conform to either the U.S.P. or N.F., competition in quality of product is practically impossible. Consequently, ethical products made by a new manufacturer, unless new products, are difficult to sell at a profitable price since they offer little opportunity for emphasizing special characteristics that may set them apart from the same product made by other manufacturers. Large organizations that have been manufacturing U.S.P. or N.F. preparations for many years are constantly engaged in research for new drugs and medical compounds. They take advantage of the research studies of universities and other groups and individuals who are engaged in advancing the knowledge of pharmacy in relation to the practice of medicine. They also have their own laboratories and spend many thousands of dollars in research along the lines in which they are especially interested. Some rather recent and commonly accepted products that have resulted from this type of research are insulin, ephedrine, viosterol, halibut oil. Even more recent are the family of vitamin products, sulfanilamide and the sulfa derivatives, and penicillin. Vitamins, however, have practically passed from the status of strictly ethical to that of proprietary. As a matter of fact the American Medical Association in 1944 took the position that most vitamin claims were excessive and began to fight the marketing methods used. Many products pass through an original ethical status, then become generally popular for self-medication, and finally are marketed as proprietaries. In this class are found aspirin, mercurochrome, argyrol, and other drugs.

Ethical products are the hardest to market of the entire field; they require a special technique in the approach to their market.[3] Their use is limited; consequently, prices are high and unit sales and sales volume are small for most of them. In addition, considerable educational work is required to acquaint the medical profession with their merits. Products of a strictly ethical nature are not quickly accepted by the medical profession. They must be accepted and prescribed by physicians and this requires the creation of reputation and confidence that are obtained only after many years of effort, and with heavy expense in proportion to sales volume. The prices of such products frequently seem to the layman to be out of proportion to manufacturing costs. But when one considers the experimental and pioneering costs that must sooner or later be covered, prices may not be too high. For many of them, however, the market is not small, as the sale of vitamin tablets and capsules showed when prices were lowered substantially. As new products are developed, therefore, extensive research could well be undertaken to determine the possible markets at different prices.

[3] Chapter 16 discusses ethicals more fully and suggests techniques for merchandising these products.

Proprietary Products. A proprietary is either a medicinal or a curative product offered to the public under a brand name and extensively promoted for direct consumer purchase. Originally such products were called "patent medicines." The product itself and its merits may be exploited to the fullest possible extent, as long as claims are not in conflict with certain governmental requirements, as indicated elsewhere in this book.

Proprietaries are found in two basic groups. They are either original, patented preparations manufactured under brand names, some representing new discoveries like mercurochrome, halibut oil, insulin, viosterol; or they are combinations of standard medicines or home remedies, such as syrup of white pine and tar, milk of magnesia, aspirin, cod liver oil, and Castoria, advertised to the public or through the profession under brand names. Some of these products started as ethicals but gradually came to be marketed as proprietaries. Generally there is somewhat of an overlapping of marketing a drug product as an ethical and as a proprietary. The difference is as follows: ethicals are those products that depend largely on the prescriptions of physicians for their sale, whereas proprietaries are products marketed largely by direct advertising to the lay public.

Proprietaries may be branded substitutes for ethical products. They may be standard in the sense of conformity to the specifications listed in the U.S.P or N.F., or they may be original products of the manufacturer and not so listed. However, the use of secret formulas is decreasing, as many cities now require the filing of formulas with many local boards of health before the products may be sold, while the requirements of the 1938 Food, Drug and Cosmetic Act may do away with them altogether.

Origin of Drug Proprietaries. In the early stages of proprietary manfacturing individuals discovered or created adaptations of standard remedies, pharmaceuticals, and ointments, and began to market them under brand names. Proprietaries were sometimes manufactured in drug stores and frequently took the place of prescriptions issued by doctors. One of the earliest of such products was Lydia Pinkham's Vegetable Compound, a product that still has a large sale, although on the market for more than 80 years. Patent medicines enable the manufacturer to concentrate on and create for himself a market for his remedies and, at the same time, by large-scale, standardized production, to give to the public a product uniform at all times and comparatively low in price. The proprietary products became popular because they often seemed to enable the public to effect self-cures without going to the expense of employing doctors.

Through the educational effects of advertising, the proprietary manufacturer created a strong consistent demand for his product. The public's faith in the efficacy of a product having once been established and apparently maintained, the dealer was enabled to handle part of his trade with

greater facility than formerly. As time went on many druggists, because of close contact with proprietaries in their own establishments and the possibility of small initial investments necessary to manufacture and merchandise the proprietary, were encouraged to manufacture some of their own. Some of these druggists have had small groups of professional acquaintances willing to help them finance their modest manufacturing ventures. In this way, many large organizations, now prominent in their fields, were founded. The field gradually has become crowded and there are now many competitive proprietaries in the market, all offering the same curative power.

The success or failure of a particular manufacturer's proprietary does not depend entirely upon its quality as a curative medicine because, in the long run, and with the exception of some unusual discovery, one proprietary is about as good as another for its intended purpose. Success in marketing is usually the result of sustained and constant advertising and other effective sales promotional methods.

The importance of proprietaries and their merchandising in the drug product market is ably set forth in the following statement:

> Investigation over a long period of years indicates that more and more of the merchandise handled by the drug trade is of proprietary character. Proprietary articles are those to which the manufacturer has the exclusive right, a fact which renders them extremely susceptible to abuse in trading by those who would make them leaders to induce other trade by means of deviation from the price named or suggested by the maker or proprietor. Now the demand for these proprietary articles is especially created by the proprietor or manufacturer, and it is the function of the retailer and wholesaler to supply them on demand, it being assumed that it is profitable to do so. This demand is created as the result of good will built by the proprietor for meritorious products by advertising to the consumer in one form or another.

World War II with its attendant shortage of doctors stepped up the sale of proprietaries. Self-medication has become more prevalent than ever, and this influence is likely to be with us for many years. Frequently doctors prescribe proprietaries for treatment of common ills, and the public often makes a purchase direct the second time.

Toiletries. The most extensive group of demand merchandise sold through the average drug store is toiletries. They can be grouped in classes; and in each class are thousands of different manufacturers competing for the limited consumer expenditures available for this type of product. Toilet preparations may be grouped as follows:

1. Cosmetics and beauty products, among which are included creams, powders, rouges, lipsticks, dipilatories, nail preparations, perfumes, deodorants, and toilet accessories like brushes, combs, and so on. This field has expanded considerably since 1900, an expansion due to the development of new habits. Formerly the use of cosmetics was limited; now their use

is practically universal in Occidental countries and among the wealthier Asiatics, some products being used by men as well as women. With this growth has come increased competition for the druggist and the manufacturer, although competition has largely been one of ideas and marketing expedients rather than product, because of the increase in numbers of purchasers. Through greater purchasing power created by war income, per capita purchases of individuals increased steadily and the starting age of users dropped, so that the prospective market broadened tremendously. A large portion of this market will remain with us even in the postwar period.

2. Oral preparations, among which are included dentifrices like tooth pastes and powders, mouth washes, and oral antiseptics.

3. Men's articles, among which are included hair dressings, shaving creams, lotions, talcum powders, brushes, and razors.

4. Soaps, which include hand and toilet soaps, house and laundry soaps and other products that make for personal cleanliness, such as shampoos and facial cleansers.

Druggists include toiletries in the group they call "hand sale" because in selling them usually little professional knowledge or extensive sales efforts are required, and therefore little of the druggists' professional time is used. This group of products is heavily promoted, is highly competitive, and at the same time, if successful, holds forth the possibility of immense profit. Since technical knowledge on how to use toiletries is necessary, some druggists are now employing women to push their sale. The successful marketing of products included in this group is dependent upon ingenuity in merchandising ideas and ability to anticipate consumer preferences, needs, and tendencies.

Drug Sundries. Among drug sundries we place many objects that are actually not drug products although they are marketed through the drug stores. Here are found a variety of rubber goods and other necessities for the sick room and such products as alarm clocks, stationery, books, cameras and supplies, bathing equipment, toys, and, in a large number of stores, also books, magazines, and newspapers.[4] The principles of marketing that apply in any general merchandise field apply in the drug field with this exception—the druggist's own likes and dislikes must be carefully considered in offering products to him.

PRODUCTION FACTORS OF DRUG AND COSMETIC PRODUCTS

Physical Characteristics. After the manufacturer has decided on the product that is to be marketed, he must make a study of the physical char-

[4] A store like Webb's in St. Petersburg, Florida, has become virtually a department store with a drug section. Also see the Red Cross Pharmacy in Miami, Florida.

acteristics of the product. He must ask himself a number of questions. What ingredients are to be used and are these the best for the purpose? What physical conditions must the product be prepared for; how long is it likely to be in stock before being consumed; what heat, cold, and handling is it likely to undergo? In what way does the product differ from those already on the market? How superior is it, if at all?

Some of these questions can be answered only by directly comparing the proposed product with others on the market. The rest can be taken care of in the laboratory.

Consumer Tests. In order to be sure that the product which is to be marketed merits the confidence of the entrepreneur who is to invest in its manufacture and marketing, it is essential that consumer tests be made. These users' tests, when properly conducted, go a long way toward determining whether the product is right and the plans for marketing it correct. The tests must be comprehensive. They should cover several areas and a reasonably large number of people. Caution must be sounded against limited tests, since these may furnish insufficient data for sound conclusions and, consequently, when the sale of the product is spread over wider fields weaknesses of a serious nature may develop in both product and sales plans. These ought to be discovered and corrected before harm is done to anyone.

Laboratory vs. Large-scale Production. Many articles, accepted by the public in preliminary market tests, and seemingly found to be practical when manufactured on a small scale, reveal difficulties of manufacture when large-scale production is attempted. Often errors creep in, the seriousness of which is revealed only when the merchandise deteriorates after being in the hands of the dealer for a period of time, or a variety of mistakes may occur in processing the product that come to light only when the consumer uses the product. These are some of the factors that, unless guarded against, make it difficult for merchandise to create permanent good will and thus have a steady and profitable sale. In some cases near disaster may be the result. In 1943 it was discovered that many thousands of bottles of Castoria had been contaminated. The company had to issue public warnings to have all packages returned. For over one year not one bottle of Castoria was sold to the public. During this time a new product was manufactured and the most exhaustive tests were made on the new product to be sure that it complied with all standards of purity and safety. Obviously no chances could be taken in beginning to ship merchandise until the manufacturers were absolutely certain that it was perfectly safe. New packages were designed, lot numbers were provided for each group, and finally, after about fifteen months (June 1944), the company announced it was ready to ship again. Not only were there enormous losses incurred

in taking back merchandise, stopping shipments for over one year and changing packages, but also there was a loss of good will, with an effect on sales that is hard to calculate.

MARKET FACTORS IN THE SELECTION OF PRODUCTS TO BE MANUFACTURED AND MARKETED

Importance of a Knowledge of the Market Factors. It may be just as catastrophic to plunge into the manufacturing of a product without complete knowledge of all conditions surrounding it as to dive into water without a knowledge of its depth. When a manufacturer is considering going into a market he should be sure that he knows the potential sale of the unit in his trading area. Some products, for instance, may have a potential sale of $12.00 per customer a year. Other products may have a potential sale of only 50¢ or $1.00. Some products have a high rate of consumption; others have not. Furthermore, in some fields there are such strong brand dominations, and so little consumer switching, that there is very little opportunity for new products to succeed. On the other hand, in certain fields there is little brand domination, and the floating market is large and not set in favor of a few products, thus leaving room for new manufacturers to gain a foothold.

Research will reveal these facts. The forecasts of research departments should be used to guide the manufacturer in selecting the product to be made and sold. This is of material aid in eliminating the expense of promoting potentially unsuccessful products.

Mistakes to Avoid. The common mistakes made by those unfamiliar with the details of producing and marketing drug and cosmetic products are: (1) the use of an improper base material in a mixture for retaining the product's characteristics over a period of time; (2) making claims for the product that do not stand up under scientific testing; (3) failure to follow the rules of the Food and Drug Administration as to labeling the product and the rules of Federal Trade Commission as to advertising the product; (4) the use of the wrong type, or materials, of package; (5) inefficiency in the use of marketing practices in the sale of the product.[5]

The newcomer in the field will be well advised to make a confidant of one of the old-line trade manufacturers, who usually is glad to put at the newcomer's service his experiences of years in this field.

Why Druggists Buy Certain Products. The manufacturer must prepare a large number of reasons why his products should be accepted in preference to others that are on the market; he must discover just what his particular offering has in common with others, and in what way it differs;

[5] See in this connection the interesting pamphlet, *Little Stories of Big Mistakes*, compiled by C. E. Jamieson & Co., Detroit, Michigan.

in what purchasing group his product will fall and what the purchasing power of his prospective customers is; he must try to judge as accurately as possible consumer demand, and have some knowledge of the trend in consumption. This knowledge, when properly used, will aid materially in successful marketing of a product.

Merchandise cannot be sold unless it meets the consumer's psychological or physical needs. Consequently, the product must be designed or created to cause favorable psychological or physical reactions in the individual whose money is to be obtained in exchange for the product. This indicates the need for thorough and careful analysis of the market that is to be covered.

The formulas for success in securing distribution through drug stores is strikingly revealed in a survey made for *Sales Management* [6] among 500 druggists in Chicago. Experience in selling and conferring with druggists suggests that this survey is representative of the trade. Druggists like, as may be seen from the accompanying table, first of all a high markup; second, rapid turnover; third, consumer advertising; fourth, stabilized prices, and next, quality of product. They do not like to sell products that bring insufficient profit, that are not on the fair trade list, and that have little or no turnover. In addition the survey showed the branded products the druggists liked best to sell and those they liked least. Producers and sellers of medicines and cosmetics should ponder over this survey more than a little.

Reasons for Liking to Sell Specific Products

	Percentage of Those Interviewed
Markup	30.3
Turnover	26.3
Consumer advertising	14.2
Stabilized prices	11.7
Quality of product	9.9
Deals and free goods	2.1
Stores and window displays	2.1
Quantity discount	1.9
Salesmen	0.6
All others	0.9

Reasons for Not Liking to Sell Specific Products

	Percentage of Those Interviewed
Insufficient profit	58.3
Not on fair-trade list	33.3
Little or no turnover	4.4
All others	4.0

The formula seems simple, but on examination it will become apparent that it is not as simple as it seems. For example, one might say "Let's put out a product and price it so that the dealer secures the margin of profit

[6] *Sales Management*, June 1938.

he desires." But there can be no margin of profit for anyone unless consumers are willing to buy. Turnover then becomes more necessary than markup, and turnover is a compound of many items such as price, quality, coordination of advertising in all its forms, appearance of product, competition, geographical, economic, and social factors, demonstrators, and sampling. Consequently, to make a product and to map a campaign require the study of a host of facts and experiences and a program of action that in many cases takes large sums of money to put into effect.

Possibilities of Product Limitation. It is essential for any manufacturer to determine carefully the extent to which his product can be imitated, both in its basic characteristics and in its appeal to consumers. Any product that is successful will attract imitations, which may be either inferior or equal in quality. The imitators will be other manufacturers, wholesalers, chains, and cooperative retail buying groups. Successful imitations gradually cut into one's volume of sales. The smaller the opportunity for imitation of the product, the greater the potential market and the possibility of success. This means that every product selected must be analyzed to determine whether it is of such a nature as to make exploitation by others impossible. The more original the product, the more distinctive the appeal; the more it can be differentiated from other products, the greater will be the possibility of securing results commensurate with the effort put forth to produce and market it.

Product Counterfeiting. The factor of counterfeiting presents a problem hard to solve. Many manufacturers place secret tracers in their products to aid in the detection of counterfeiting. One way by which a product can be secretly marked is by placing hidden serial numbers or special symbols on wrappers that cannot be broken without detection, or by sealing bottles. Another way is by including in the product some innocuous chemical that is ordinarily not discoverable except by the most thorough analysis and search. Some firms use special registered paper for their labels. In fact, there are many ways, depending upon one's ingenuity, by which counterfeiting can be guarded against. There are firms that specialize in working with manufacturers in the detection and elimination of counterfeiting and any trade paper like *Drug Trade News* will be glad to place you in touch with them.

Product Competition. Drug and cosmetic products are subject to several kinds of competition, and the manufacturer should be aware of these before he begins the production and distribution of a new product. If a manufacturer decides, for instance, to put a new tooth powder on the market he must be familiar with the price to consumer and dealer of similar products already on the market, for his tooth powder must compete with the known and established ones. Also he faces competition from products

that are dissimilar in appearance but designed to accomplish the same purposes as his tooth powder, that is, tooth pastes and liquid dentifrices. Another type of competition the producer must meet is that from tooth powders that are purchased on the basis of a brand name. All these types of competition are considered more fully in Chapter 3.

Seasonal and Climatic Influences. Products that are affected by seasonal and climatic influences are also in need of careful analysis before their manufacture is decided upon. Experiences indicate that a product that may be perfectly safe to use and that meets a need of the consumer in cold weather may develop unattractive and harmful qualities in warm weather. For instance, the manufacturers of chocolate laxatives found it difficult to sell their product in hot communities or in the summertime The heat brings the butter fat of the chocolate to the surface, causing the merchandise to become spotted and unsightly. Some creams, unless properly and carefully prepared, will melt in hot weather. Other creams packed in tubes sometimes separate. Some tubular products become hard and dry out. Some shampoos when too cold become cloudy and separate. Certain base materials in gelatine capsules when exposed to heat may dissolve the gelatine and leave a sticky mess instead of a curative drug. Thus thorough tests are necessary to discover the climatic limitations of a product.

Products may have greater or less sales possibilities, either because of seasonal factors or climatic conditions. They may have greater marketability in the warmer parts of our country than in the colder or vice versa. It is well to consider that merchandise which is sometimes marketable geographically may be only seasonably acceptable. These conditions affect seriously the distribution of any unit and its sale.

Variations in Purchasing Power. Purchasing power changes constantly, thus influencing purchases. In the depression years, the trend was toward smaller units. During World War II, because of scarcities and higher income, the trend was to larger sizes. This trend may change in the other direction and care must be taken to catch the trend and work with it.

Consumer Fashion Trend in Merchandise. Strange as it may seem, there are what appear to be consumer fashion trends in drug products. For instance, for years the trend in laxatives was toward chocolate laxatives. These lost public favor to mineral oils. Then milk of magnesia followed, and more recently there has been a general acceptance of the seed type of bulk laxative such as psyllium. This does not mean that each type as it is accepted sells to the exclusion of those previously popular, but merely that large numbers of consumers stop using the one type and change to the other. There are trends in the treatment of head colds. Recently we have seen the rise of medicated oils as usual remedies. Prior to this, catarrhal jellies were the vogue. And prior to this, vaporous products were

most in public favor. Even the doctors are not immune to trends. Cod liver oils for children were universally used a few years ago. Then vitamin concentrates such as viosterol and haliver oil seemed to enjoy the physician's favor, and most recently it is the vitamins, tablets and pills, simple and complex, that seem to be favored. Other medicinals have a trend, too, governed largely by the results of research in medicine and late discoveries. The sulfa drugs and penicillin are the latest types that are most generally favored for many ills. Very frequently new discoveries or ideas will change the trend of public favor considerably, as witness the rapidly mounting sales in vitamin tablets and pills to heights of $200,000,000 in 1944.

These facts give one a general conception of the strong influence of fashion in the marketing of even drug products, which usually are considered as having a steady, stable demand. Fashion trends should be determined and followed, if largest sales are to be secured. If a drug product is likely to be marked by fashion or type preferences, then the manufacturer must anticipate these trends just as carefully as does any manufacturer of wearing apparel or other types of commodities so affected.

There are also fashions in cosmetics. Sometimes these trends follow the fashion trends of clothing; sometimes the fashion trends follow the creations of enterprising manufacturers. In 1938 there was a sudden popularity of facial creams and cleansing creams furnished in saturated pad form for quick use. This fad did not last very long, however; two or three years later it had practically disappeared. But enterprising manufacturers followed the fashion by putting up deodorant pads in the same manner. A rather recent trend has been the rise in the use of powder bases, first in liquid, then in stick, and later in cream form. A few years ago vanishing creams were used as powder bases. Since then habits and users have changed radically. The latest trend in powder bases seems to be the cake form. This was first promoted by Max Factor; soon others followed. Surveys in 1944 showed that 37 per cent of all powder bases used were the cake type. This was a rise from 3 per cent in 1940.

Life of the Product. In selecting the product, the manufacturer should consider the life of his product in the hands of the ultimate consumer. If a product has a life of one month in the hands of the user, and has a retail value of $1.00, it might be assumed that the average consumption value of the product would be $12.00 per year per customer gained. Compare this with the selection of a product that has, let us say, an average life of six months, and may be sold for $3.00 or $4.00. The total consumption value of the first product is considerably greater than that of the second, and may therefore become a better product to make and sell. Some products may be what are commonly known as one-use products. A cold

remedy may cure quickly; on the other hand, a shaving brush may have an exceptionally long life. A box of baby powder may last two weeks, but as the baby grows, new users must be found every six to nine months as the rate of consumption decreases with the increasing age of the beneficiary.

Consumer Reaction to Price of the Product. Important also in the selection of the product to be sold is the price. A product can hardly be marketed successfully that is either too costly for the benefits to be derived from it, or whose market is limited to small numbers because of the low purchasing power of the people in general. Between 1932 and 1936 nearly one third of our population could not pay for medical care at the then prevailing prices. While this condition does not exist now, it could conceivably happen again, although no one can faithfully forecast future income. In either case the market may be so small and the cost to reach the market so high that profits cannot be earned even though the margin is wide. This indicates that among the many factors that cause the consumer to prefer one article rather than another, the element of price is an important one, and careful study of price tendencies should be made before the product is decided upon.

Special Features of Product. In order to obtain as much of the consumer preference as possible, all unusual features and advantages possessed by a product should be analyzed and put before the consumer. These special features may be prompt and efficacious results from the remedy, desirable social or personal benefits, improvement in personality or personal appearance, special ingredients or processes of manufacture, and attractiveness or effectiveness of package. Because of intelligent advertising, improved education, the domestic science trend in schools, home economy discussions, activities of women's clubs, and other helps, consumers have become more discriminating in their selection of personal products and are likely to become even more so. They have become more price conscious, making necessary greater and more intelligent effort on the part of the manufacturer and distributor to gain their favor. Consumers are not as gullible as they were once thought to be, and a vast movement is under way to educate them to become more product-wise than ever before.[7]

Consumer Confidence and Guarantees. The gaining of consumer confidence and acceptance is essential in successful drug marketing. If the consumer, for any reason, whether true or fancied, loses confidence in either a manufacturer or his product, it is an almost unsurmountable obstacle to further sales. This is why we find various manufacturers not only guaranteeing the products they manufacture, but also trying to get the approval

[7] See in this connection "Consumer Movements and Business" by Bader and Wernette, *Journal of Marketing,* July 1938, and reports of the Institute for Consumer Education, Columbia, Mo.

of individual scientists and the medical and dental associations. The acceptance of the product by such institutions as the American Dental Association, the American Medical Association, *Good Housekeeping Magazine,* or child welfare institutes helps, although it is not always essential. However, where this acceptance is possible, it is wise to attempt to obtain it.

Patents and Trademarks. A manufacturer needs to know that no drug product is patentable, though a process may be. The value of a patent is obvious. It gives the originator of any product the exclusive use of his discovery for at least seventeen years. The first trademarked proprietary remedies were erroneously called "patent medicines." In reality the products are merely trademarked. However, there were a few products in the old days that were patentable. They represented exclusive formulas, but as a result of failure to observe the law, they lost their rights to the coined name.

Care should be taken that the brand name of the "patented" product does not become a generic term so that its value as a trade name is lost. Aspirin, the trademark given to the patented monacidester of salycilic acid, is no longer the exclusive product of the Bayer Company. Any firm may manufacture monacidester of salycilic acid and call it aspirin, the original patented designation of the product. The same is true of milk of magnesia. The latter was originally a patented product and when the patent expired the originator lost the name he had given his product. Therefore, you should keep the name of the product technical and the brand distinctive.

The use of brand names and trademarks is essential since they help protect the owner from loss of sales because of substitution of another product. A trademark should be marked by originality in design; it should be easy to recognize; and, when possible, it should indicate in some way the features of the product. A brand name may be a coined word. It should be easy to pronounce and spell and indicative of the product or its characteristics. Although the courts are keen in guarding property rights in brand names and trademarks, these should be developed along lines not easily infringed upon, and thus legal difficulties would be avoided. Marks used to identify products can be registered with the proper office of the federal government in Washington. A trademark is registered with the Patent Office, Washington, D. C., whereas a label is copyrighted by that office. Various regulations must, however, be observed and for this purpose a competent patent attorney should be consulted.[8] In the cosmetic field most trademarks are names of persons or flowers, or are coined names. The use of a person's name, however, is not always desirable and very frequently there is loss of value with the death of the person whose name is being used. A tendency

[8] For an excellent short discussion of brand names and trademarks see Otto Kleppner, *Advertising Procedure,* 3rd Ed., Prentice Hall, Inc., New York, 1941, Chapter VIII.

has developed to use or imply historical names. In the medicinal field, names of doctors or the originators of the products have been the vogue. Of late this tendency has been changed to coined and original words, of more technical or scientific type, like mercurochrome and viosterol.

Public Familiarity with the Type of Product and its Purposes. The purposes of some products are quite obvious and simple label explanations may suffice for them. On the other hand, some products require either personal demonstration or considerable education in their use. A product may or may not be efficacious. It may or may not be dangerous to the user. Whether a product falls into the classification ornamental, medicinal, or beautifying, its uses must be clear, understandable, and unquestionable. The Federal Food, Drug, and Cosmetic Act of 1938 stipulates the kind of labeling drug and cosmetic products must have, in order that the public may be protected as much as possible. Specific and detailed requirements are treated in Chapter 21.

The Proper Classification of Products. "When is a medicine not a medicine?" becomes more than a facetious comment when the following reports are considered:

According to a statement by Attorney General L. A. Foot of Montana, any dealer in general merchandise in that state may handle patent medicines and toilet articles in the manufacturer's original packages, if plainly labeled, without securing a druggist's license. It is interesting to note that rulings in four other states have recently been announced pertaining to the sale of proprietary medicines in other than drug stores and without druggist licenses. One of the most recent of these was decided in California, where the seizure of hydrogen peroxide in a Woolworth store was upheld and the decision rendered that peroxide could be sold only by a licensed druggist. This opens up a wide field of speculation as to what is and what is not to be considered a medicine.

In Oregon, Attorney General Van Winkle has held that the use of the words "drug sundries" on the outside of a general store is a violation of the State Pharmacy Law in cases where no registered pharmacist is in charge of the store although the law does not prohibit the sale of patent or proprietary medicines by general stores.

In Ohio, the Columbus Municipal Court has ruled that aspirin is a "household remedy" and is, therefore, exempt from the Ohio law requiring that drugs may be sold only by registered pharmacists.

In Minnesota, the State Supreme Court ruled that Milk of Magnesia in the original package of the manufacturer which is prepared in accordance with the formula contained in the United States Pharmacopeia is a "medicine" within the meaning of the Minnesota Pharmacy Act, and, therefore, may not be sold at a place of business other than one in which a registered pharmacist is employed or is in active charge.

In the State of New York, the Attorney General in 1944 ruled that vitamin products may be sold only in drug stores and thus prohibited their sale in grocery outlets. Suits were filed to reverse the ruling under the law, but were denied. No further action has been taken and consequently, up to the present, that is the law in the State of New York.

The marketing of a product, therefore, has, in certain cities, legal limitations that should enter into the consideration of the product to be manufactured.

Chapter 3

COMPETITION AND MERCHANDISING PRACTICES

This chapter points out the kinds of competition a producer will find himself faced with in drug and cosmetic distribution. Competition takes several forms, one being differences in price, not only price to consumers but also price to dealers, who are interested in large markups. Another form of competition is through the variety of dissimilar products offered, each with persuasive advertising or sales talk claiming the same result. There is also the competition of prestige—the large, heavy-advertising firm with what have become well-known brands. Nevertheless the field is wide open because people are what they are, with biases, prejudices, customs, and habits which may be seized upon by a wide-awake, capable individual and turned to account.

Competition is an important consideration in any attempt to market either a drug or toiletry product. This competition resolves itself into four classes:

1. Competition in price to the consumer
2. Competition in price to the dealer
3. Competition of dissimilar products
4. Competition of prestige products.

COMPETITION IN CONSUMER PRICE

Consumer Price Ranges. If a manufacturer wants to market a face powder and finds that most face powders are selling at an average retail price of $1.00, he would find it considerably more difficult to sell a higher-priced face powder than to enter the $1.00 market. There is a market for a $2.00 or even higher-priced powder, but that market and his share of it would probably be smaller than for the $1.00 powder. That there are more competitors in the $1.00 field might suggest to a manufacturer that he go into a different-priced field, but because of the tremendous sales pressure developed for the $1.00 product, most of the demand is concentrated at that price.

In selecting the price range, it is necessary for the manufacturer to decide the extent to which price is a determining factor when consumers make their purchases. If price is relatively unimportant to the sale of the product, then a price on the product that puts it in the range of the majority

WHAT PRICE THEY PAY

CLASSIFICATIONS	10¢ & Under	11-25¢	26-50¢	51-75¢	76¢-1.00	Over $1.00	GRAND TOTAL
Astringents	7.1%	4.8%	12.3%	10.0%	45.5%	20.3%	100.0%
Bath Salts, Softener	3.8	6.5	17.3	17.3	40.4	14.7	100.0
Bob Pins	92.2	6.8	0.9	0.1	0.0	0.0	100.0
Brilliantine	38.2	16.0	29.8	7.6	7.6	0.8	100.0
Cleansing, All Purpose or Cold Cream	7.5	15.7	27.3	14.2	23.0	12.3	100.0
Cleansing Tissue	31.5%	57.5%	10.1%	0.4%	0.2%	0.3%	100.0%
Combs	37.5	38.4	15.6	2.6	4.8	1.1	100.0
Cuticle Softener	60.3	14.4	9.7	7.2	7.2	1.2	100.0
Dentifrice (Liquid)	25.5	42.1	28.3	3.5	0.6	0.0	100.0
Deodorant	12.9	12.5	54.1	15.5	4.3	0.7	100.0
Depilatory	20.5%	13.0%	23.7%	9.2%	23.7%	9.9%	100.0%
Eye Shadow	52.4	6.9	17.9	3.4	16.6	2.8	100.0
Eye Wash	4.6	20.9	40.0	27.7	5.7	1.1	100.0
Eyebrow Pencil	76.8	7.8	9.8	2.4	3.2	0.0	100.0
Face Powder	8.1	10.3	12.6	4.7	48.6	15.7	100.0
Hair Curler	62.7%	11.9%	11.9%	5.9%	2.5%	5.1%	100.0%
Hair Oil	21.6	20.6	29.4	10.8	14.4	3.2	100.0
Hair Rinse	40.7	42.3	11.7	1.8	1.8	1.7	100.0
Hair Tonic	7.3	6.6	35.8	22.5	21.2	6.6	100.0
Hand Cream	10.5	12.4	34.9	19.2	20.8	2.2	100.0
Hand Lotion	10.8%	16.5%	38.8%	10.2%	20.5%	3.2%	100.0%
Home Permanent Wave Set	3.1	3.1	7.9	38.6	18.1	29.2	100.0
Leg Make Up	2.7	5.2	14.6	9.1	48.5	19.9	100.0
Lipstick	11.5	6.6	13.1	9.8	48.4	10.6	100.0
Mascara (Cake)	68.2	5.2	4.3	5.2	13.8	3.3	100.0
Mascara (Cream)	76.2%	7.3%	2.3%	4.5%	8.7%	1.0%	100.0%
Mouth Wash	8.9	29.9	37.9	14.1	8.5	0.7	100.0
Nail Polish	43.6	5.7	5.4	31.7	11.7	1.9	100.0
Nail Polish Remover	58.3	14.2	12.2	11.4	3.6	0.3	100.0
Nail Whitener	70.8	14.1	5.4	8.1	1.6	0.0	100.0
Perfume	4.7%	3.6%	2.9%	7.7%	23.6%	57.5%	100.0%
Powder Puffs	72.0	19.5	6.1	0.3	1.2	0.9	100.0
Rouge (Cake)	22.7	9.4	31.7	15.1	18.7	2.4	100.0
Rouge (Cream)	5.8	10.6	16.8	20.7	35.5	10.6	100.0
Sanitary Napkins	0.5	65.9	12.1	2.3	17.6	1.6	100.0
Shampoo	11.0%	13.1%	34.1%	18.6%	19.4%	3.8%	100.0%
Sunburn Preventive	10.0	14.3	42.1	11.4	17.9	4.3	100.0
Sunburn Remedy	8.4	19.6	44.8	15.9	8.4	2.9	100.0
Talcum Powder	11.2	11.6	15.2	8.0	39.9	14.1	100.0
Tampons	2.7	45.6	32.5	5.8	13.4	0.0	100.0
Toilet Water	0.6%	1.8%	6.2%	3.8%	49.2%	38.4%	100.0%
Tooth Brush	1.4	20.0	63.9	10.9	3.1	0.7	100.0
Tooth Paste	6.7	27.1	60.7	4.6	0.8	0.1	100.0
Tooth Powder	12.4	32.1	47.6	4.8	2.7	0.4	100.0
Vanishing Cream or Foundation Cream	10.5	13.8	24.1	13.5	25.4	12.7	100.0
Waveset Lotion	70.8%	21.0%	6.2%	1.0%	1.0%	0.0%	100.0%
TOTAL	28.3%	17.0%	21.9%	9.2%	16.7%	6.9%	100.0%

of similar goods will give the product greater marketability than it would attain if the retail price is set at a figure outside the current range. Less resistance would be encountered and less advertising would be necessary.

However, if the product is priced out of the price range of most products of similar nature, then such a retail price is likely to become an obstacle in the marketing of the product. If the price is too high, the potential market will be reduced. If it is too low, then the public may be doubtful of the quality and that doubt will, of course, hurt the sale. It is assumed, in this connection, that the product compares favorably with competing products in purpose, appearance, and quality; that it has as much merit as any competitive product.

Illustrative of the wide variations in the prices paid and the price ranges of different products, we list below a few items as given in the *14th Survey of Beauty* of Modern Magazines (1945):

TABLE 2. PRICE RANGES OF SELECTED COSMETIC PRODUCTS
(In percentages of those answering questionnaire)

Product	10¢ and under	11–25¢	26–50¢	51–75¢	76–$1.00	Over $1.00
Face powder	8.1	10.3	12.6	4.7	48.6	15.7
Lipstick	11.5	6.6	13.1	9.8	48.4	10.6
Rouge (cake)	22.7	9.4	31.7	15.1	18.7	2.4
Creams	7.5	15.7	27.3	14.2	23.0	12.3
Hand lotion	10.8	16.5	38.8	10.2	20.5	3.2
Bath salts	3.8	6.5	17.3	17.3	40.4	14.7
Tooth paste	6.7	27.1	60.7	4.6	0.8	0.1
Perfume	4.7	3.6	2.9	7.7	23.6	57.5
Mascara	76.2	7.3	2.3	4.5	8.7	1.0
Nail polish	43.6	5.7	5.4	31.7	11.7	1.9

Not only the price unit purchases are of special interest to manufacturers, but the places of purchase also. If purchases are largely concentrated in 10¢ sizes different merchandising methods are required from those used if the bulk of the business is likely to come from drug or department stores.

From the table "Where They Buy" (page 31) from the Modern Magazines' 1945 *Survey of Beauty* it can be seen that whereas the druggist leads in the sale of eye wash with 89.5 per cent of the total, in nail polish he does only 33.8 per cent of the total. Whereas the 5-and-10-cent store does 40.2 per cent of the nail polish total, it does only 10.0 per cent of the perfume and 22.6 per cent of the tooth paste total. The high percentages of purchases of soap in miscellaneous outlets are probably due to the large sales of these products in grocery outlets. The current figures are interesting but comparisons of these surveys over a period of years will indicate rising or falling trends in different groups as to place of purchase and

WHERE THEY BUY

CLASSIFICATIONS	Dept. Store	Drug Store	5 & 10¢ Store	All Others	GRAND TOTAL	PERCENT USING
Astringents	37.2%	43.5%	12.3%	7.0%	100.0%	17.9%
Bath Salts, Softeners	34.5	45.2	10.2	10.1	100.0	33.5
Bob Pins	6.3	16.0	75.4	2.3	100.0	79.7
Brilliantine	13.3	36.7	47.5	2.5	100.0	9.1
Cleansing, All Purpose or Cold Cream	20.4	43.6	33.3	2.7	100.0	76.2
Cleansing Tissue	10.7%	42.4%	37.1%	9.8%	100.0%	83.2%
Combs	8.8	27.1	59.0	5.1	100.0	70.8
Cuticle Softener	14.1	27.8	57.4	0.7	100.0	26.5
Dentifrice (liquid)	4.3	47.8	45.4	2.5	100.0	9.3
Deodorant	11.9	45.8	40.9	1.4	100.0	86.0
Depilatory	22.4%	47.0%	30.6%	0.0%	100.0%	8.8%
Eye Shadow	20.0	21.5	57.7	0.8	100.0	8.4
Eye Wash	3.1	89.5	6.8	0.6	100.0	18.8
Eyebrow Pencil	9.0	17.6	72.7	0.7	100.0	27.2
Face Powder	27.8	45.5	23.4	3.3	100.0	92.4
Hair Curler	11.7%	12.5%	75.0%	0.8%	100.0%	10.4%
Hair Oil	10.1	58.2	26.0	5.7	100.0	11.8
Hair Rinse	5.9	44.4	40.6	9.1	100.0	19.5
Hair Tonic	10.5	65.8	21.1	2.6	100.0	9.9
Hand Cream	14.4	49.1	30.9	5.6	100.0	32.4
Hand Lotion	14.2%	49.5%	33.3%	3.0%	100.0%	72.8%
Home Permanent Wave Set	31.1	46.7	20.5	1.7	100.0	7.9
Leg Make Up	42.2	46.8	11.0	0.0	100.0	21.7
Lipstick	30.8	42.9	22.0	4.3	100.0	94.5
Mascara (Cake)	9.7	25.3	63.0	2.0	100.0	28.9
Mascara (Cream)	8.1%	18.1%	73.3%	0.5%	100.0%	12.1%
Month Wash	5.4	72.9	19.1	2.6	100.0	49.4
Nail Polish	24.4	33.8	40.2	1.6	100.0	88.4
Nail Polish Remover	16.4	26.5	55.9	1.2	100.0	78.0
Nail Whitener	15.3	26.8	56.8	1.1	100.0	14.2
Perfume	38.0%	50.4%	10.0%	1.6%	100.0%	67.1%
Powder Puffs	9.7	19.6	70.7	0.0	100.0	69.2
Rouge (Cake)	23.1	41.8	31.2	3.9	100.0	58.8
Rouge (Cream)	49.1	28.5	20.6	1.8	100.0	13.2
Sanitary Napkins	15.0	62.3	17.2	5.5	100.0	86.6
Shampoo	9.7%	62.6%	22.9%	4.8%	100.0%	84.5%
Sunburn Preventive	17.2	66.9	12.4	3.5	100.0	10.4
Sunburn Remedy	11.1	74.3	12.8	1.8	100.0	7.3
Talcum Powder	28.2	47.8	19.5	4.5	100.0	73.0
Tampons	10.4	69.5	18.3	1.8	100.0	16.4
Toilet Water	42.6%	51.1%	3.0%	3.3%	100.0%	49.6%
Tooth Brush	7.1	72.1	17.5	3.3	100.0	95.0
Tooth Paste	6.0	67.3	22.6	4.1	100.0	79.4
Tooth Powder	4.9	64.5	26.6	4.0	100.0	28.5
Vanishing or Foundation Cream	22.9	40.6	33.4	3.1	100.0	38.9
Waveset Lotion	3.6%	27.7%	64.6%	4.1%	100.0%	12.6%
TOTAL	16.7%	44.3%	29.4%	9.6%	100.0%	

static conditions in others. The changes in the places of purchase will also indicate changes in buying habits based on price.

Previously, we mentioned how the leaders in many products have found their sales in the syndicate field growing in proportion to their total. Now we find that 29.4 per cent of all toilet goods business is in the 10¢ outlets, a steady rise in the past few years. The reasons for this are many, but there may be two major ones. The first is the wider use of many toiletries by women. The chart on page 11 shows how the younger age groups dominate the purchasing power. The young woman under 30 must have anywhere from ten to fifteen toilet articles in her boudoir, to keep up with modern demands. Purchasing power does not permit the expenditure of fifty cents to one dollar or more on each of this number of products. Furthermore, the lower age groups include many high school girls, whose allowances are generally limited but whose per capita consumption in units and diversity of types of cosmetics purchased is the largest of any age group. It is estimated that there are over 1,250,000 new cosmetic users each year from the youngsters, and their starting age has dropped steadily. The manufacturers have made available smaller sizes of equal quality, and hence the youngsters flock to the 10¢ counters to satisfy their needs.

The second reason for the high percentage of sales of toilet goods in the syndicate stores is the better display and availability of stocks in those stores. Many department stores resent the addition of new items. They have demanded hidden demonstrators, advertising allowances or cooperation, and guaranteed sales; and they fight strenuously any commitment in merchandise. Furthermore, where departments are now manned entirely by girls paid by manufacturers, it is almost impossible to get free sales and reasonably fair display. The result of the foregoing is that many new toilet items are being introduced in ten-cent sizes only and the department stores do not have the newer items on hand. Furthermore, since department stores generally do not care to promote items that sell for less than one dollar, manufacturers who want to hit the market hard do so in the outlets that will give them cooperation.

Most successful new products in the toilet goods field have made tremendous strides through the syndicate stores. We can mention Drene Shampoo, Blue Waltz perfume, Flam-glo lipstick, Dura Gloss nail polish, and many other products. As for the druggists, outside of those products that are on the semimedicinal side like mouth washes or tooth pastes, his assortments are meager, his choices poor, his ability to carry adequate stock slim, so that he gets very little business. The chains get more, but they are also hard to interest except on a consignment basis, unless products are very heavily advertised.

Some manufacturers recently have tried to swing the trend away from the smaller units by reminding the public how much more economical larger sizes can be. War scarcities practically forced the public to buy larger sizes in many items. Container scarcities and higher costs with frozen sales prices have helped. Since the public purchasing power is high, this has had no material effect on sales, but changed purchasing power will bring changed consumer demands, and buyers are already preparing for lower scale purchases.

Public habits in toiletries are not fixed. The younger groups are looking for new things. They try everything new that is offered and, therefore, they want low-priced units. That is why, despite opinions to the contrary, a 10¢ unit may sell millions of packages a year, and still the demand for larger sizes will cause hardly a ripple. Special note should be made of the Cutex Nail Polish survey in the Modern Magazines' analysis. In the last ten years their sales of 10¢ sizes have jumped from 65 to 88.8 per cent of their own total although they have maintained dominance in the field in every year except 1945 with sales percentages varying from 40 to 70 per cent of the total. In 1945 Revlon took the lead away from them with 34 per cent. Whether this new high-priced brand will be able to maintain the lead in the face of declining feminine income and purchasing power remains to be seen. When we see the trend indicated above and we notice how rapidly the swing has been going, we can realize that some radical changes of merchandising methods are required by manufacturers who want to enter this field.

Competitive Retail Prices. Price levels are different for different types of products. Most shaving creams and tooth pastes retail between 25¢ to 50¢. Most face powders are priced to retail at $1.00, although some $1.00 brands have 10¢ sizes. The 10 leading brands as evidenced by the Modern Magazines' *Survey of Beauty* of 1945 are as follows:

1. Max Factor	6. Avon
2. Coty	7. Pond
3. Woodbury	8. Richard Hudnut
4. Lady Esther	9. Cashmere Bouquet
5. Evening in Paris	10. All others

Fawcett Survey gives the percentage of sales of face powders in the following order:

		Retail price
Max Factor	14.0%	$1.00
Coty	13.4%	$1.00
Woodbury	10.5%	10¢ & $1.00
Lady Esther	10.4%	10¢ & $1.00
Evening in Paris	6.4%	$1.00
Avon	6.0%	$1.00

Even those brands indicated by the Modern Magazines' survey as having 10¢ sizes find that most of the buyers are purchasing the higher-priced packages. These prices refer to the original prices, not to cut prices. Price cutting may bring the 50¢ level down to 39¢; and the $1.00 level down to 79¢. Most products of the same original price will be offered at the same reduced price as other advertised products of the same type. In other words, if a dealer is accustomed to sell one kind of $1.00 face powder at 79¢, then he will probably sell most of his $1.00 face powders at that figure.

This does not take into consideration the minimum-price policy now made possible by fair trade laws. Although under this setup a manufacturer makes his own minimum resale price, to which the retailer must adhere, he still cannot overlook the minimum prices of his competitors in the same price range. Certainly if manufacturer A has a minimum of 39¢ on a 50¢ tube of tooth paste, he will generally pile up sales resistance for his product if most other 50¢ minimums are 33¢. The general practice is to make the resale minimum at about the same price as the leaders in the field, although a difference of 1¢ to 3¢ does not seem to affect sales. During World War II, the question of price cutting was practically eliminated. All retailers' prices were frozen by the Office of Price Administration as of March, 1942. Most manufacturers after 1940 adopted fair trade contracts and with the scarcity of merchandise incident to the war had very little difficulty in maintaining prices. Most new products under maximum price regulations were fair traded, so there has been little complaint from dealers. What will happen should the efforts being made by the Federal Trade Commission to eliminate fair trade be successful is anyone's guess.

Price Customs of Consumers. Consumers very often have prejudices regarding merchandise. Strange as it may seem, a product may sometimes be priced too low, since the public then seems to think that the product is not of good quality. Pricing products too low is most commonly found among beauty products and among drug sundries.

Sometimes it is necessary and advisable to make up packages to sell at different prices. Competition may dictate this policy. When this is done, the competitive price units and the number of them to be offered to the public must be carefully studied. In this way, several scales of purchasing power can be reached, as consumers who are limited in purchasing power can buy the smaller units and those who are or can be more liberal in their purchasing can buy the larger units.

However, the dealer is not pleased with many sizes of the same product, because of his inventory problems; therefore, he usually concentrates on the best-selling size. Thus each product finds its own acceptance level as the result of consumer preference.

Dealer and Consumer Prices. It is practically impossible to get any dealer to push a product offered at a price higher than similar products in his store. To him it is an insurmountable obstacle. If dealer interest is to be gained it is necessary to fit the price to the greatest consumer market and thus show the dealer you do not expect him to try to raise the price consciousness of any of his customers to a level higher than that of similar products to which they have become accustomed. While there is still considerable price cutting in products not on fair trade, the druggist in the main is satisfied to attempt to market similar products within a customary price range. In this way, he avoids the effort necessary to build an unusual price range among his customers for which, as a rule, he has not the inclination.

Competitors' Price Changes. Sometimes an important competitor in the field will decide on a drastic basic change that will have a marked effect on sales volume and that may have to be met. While the cutting of a basic price will usually have little effect on the sale of a patent medicine or a toiletry where the price is not important, in a specialty frequently it will be calamitous. A recent and impressive example is the case of electric safety razors. The first razor of its type was priced at $15.00 retail and maintained this price until the fall of 1938. During 1937 and 1938 a number of larger companies began to market electric shavers, all at about the same price—except one, which was placed at an $18.00 retail price. They were all price-protected. Suddenly in September 1938 Packard announced a reduction in retail price, to $12.50. This was followed immediately by a reduction to the same retail price of all the leading brands of the same general type. While, no doubt, the others could have maintained their retail price at $15.00 it was quite evident that business judgment dictated the advisability of meeting the reduction in order to remain in the competitive field. This is a practical example of the effect a competitor's price practices and changes may have on an already existing market and price range.

COMPETITION IN DEALER PRICE

Competitor's Marketing Practices. From the marketing experiences of others with a certain product, a manufacturer can learn much that can be a guide to him and that may enable him to avoid the expensive errors that usually come from the most generally accepted method of operation, the trial-and-error method. He can search out and discover for himself whether or not the market conditions are such that the druggists are ripe for a new product and whether or not the demand has been so divided that a new market can be gained by either lowering the price or enlarging the package, or both.

A number of important questions should be asked: (1) Is there enough business in the field to warrant additional competition? (2) Can the market be widened by careful and adequate sales promotion? (3) Is the probable market for the new product large enough to support adequately the advertising necessary to assure success? (4) Can consumer insistence for the product be developed so as to make it almost impossible to switch sales away from the product in favor of a substitute? (5) Is the competition from a competitor who is marketing a similar product as an individual unit or as one of a family of products?

The two types of competition suggested by this last question are importantly different. They may be studied to indicate whether or not a product gains wide distribution and large sales volume because the distributive cost is divided among many different products, and consequently each product can be sold at a lower price; and whether or not the marketing cost of the single unit is so high as to make the price practically prohibitive. A prospective manufacturer can be led on to dangerous ground if he does not sufficiently take this consideration into account, because if there is no successful independent product in the field to be entered, then the possibility of putting the drug product over independently is probably poor.

Generally it will be found, in the drug field particularly, that the sales volume of really successful products has been built up by manufacturers who have concentrated on one item. Whenever a line has been built, the line has usually followed the successful introduction of a single item. Other single products, like Listerine, are marketed independently. Usually, single specialties have greater demand in the field than the leading product of any family.

For example, there are two or three successful milk of magnesias, and many hundreds of imitators of them selling what can be called "pushlines." The same is true of mineral oil, of face powder, and many other products. When we look over the successful drug products, we see such names as Listerine, Pepsodent, Vick's, Phillips' Milk of Magnesia, Bayer's Aspirin, and a host of others that were originally individual specialties and patents. Later economic and other conditions brought several of these products under one control, but still they were handled as independent products and remained successful as independent products. Even though several come under one ownership, they still are marketed independently. This practice is followed because the original success in the marketing of a specialty product was continued by the new owners.

The above statement does not apply to those firms that specialize in selling U.S.P. pharmaceuticals. With those products, house reputation is important and those who market U.S.P. preparations such as Squibb, Eli Lilly & Son, and other leaders offer them as a family.

Analysis of the Competitors in the Field as to Number and Volume. The trend of sales of the products in a dealer's store and the number of brands of any one product on his shelves should be a guide to sales possibilities. In a number of cases, it has been the experience that the more brands there are of a certain type of product, the easier it may be for a manufacturer to be successful with a new brand of the product. Many successful brands indicate that the market is extensive, that the consumption is large, and that no one product has acquired dominance in the group. In such cases it seems to be easier to become successful with a new product, by directing some consumer favor from each of the large number of brands, than it would be if one or two products have developed considerable consumer good will and dominated the market. If a market is dominated by a few brands those brands have usually attained the stature of consumer insistence.

In 1928 when Outdoor Girl face powder was put on the market, it had 3000 competitors away from which to take business. By 1932, although it had only 5 per cent of the market, it had reached 6th place among these 3000—even though purchasing power was lower and price had become the important market factor. Worldwide distribution followed soon after and within four years Outdoor Girl toiletries were sold in 60 foreign markets with plants in Havana, Cuba, Montreal, Canada, and London, England. The answer was simple. Market conditions made this possible. There were 3 or 4 leading brands, which together did not control 40 per cent of the market. That left 60 per cent of the market scattered among 3000 brands. When the Outdoor Girl product with a new consumer appeal and price incentive hit the market, it was able to get enough of this 60 per cent of the market to become a leader. A later comer to the cosmetic field, Lady Esther, forged ahead to tremendous sales volume because of effective merchandising and advertising methods. A glance at the survey above will show this steady rise. But Outdoor Girl was slipping, at the time that Lady Esther was steadily going ahead, and by 1944 the former had practically disappeared and went out entirely in 1945 although the English company in the hands of the original owners continues to be one of the leaders despite war-time handicaps. Other new products that have been as successful as Lady Esther are Woodbury's face powder and Woodbury's facial creams. The reader might ask why Outdoor Girl did not retain its popularity, whereas Lady Esther and Woodbury's show a continuing popularity. The authors have very decided opinions about the causes, and they give their answers in this volume.

Some products can hold retail dominance over a long period of time. Others rise suddenly and drop off just as rapidly. Others have a slow, steady growth and seemingly without much fanfare maintain a fair and

steady sale and show interesting profits over many years. One thing is sure, if coasting is tried, the product, drug or toiletry, will slip far in the race for public favor. Once a position has been lost, it takes much greater effort to get it back than it did to get it originally. There is nothing worse to hear than the statement of a druggist or syndicate or chain store buyer: "Blank?—oh!—that's dead." Then the product remains dead—with little chance of resurrection. This is not always true, however. Hennefoam, which has had a varied career under many ownerships, had slipped so badly it had almost disappeared. Nevertheless, by careful handling, steady advertising, well-chosen sales policies, and by taking advantage of opportunities, sales are forging ahead and are now limited only by production restrictions.

Dominance Through Price Competition. In every case important competitive factors will have a marked effect upon a manufacturer's success. Price cutting until recently was one of these. Some years ago Z.B.T. Baby Powder gained dominance in the New York City market because at a time when the average retailer was disgusted with all the products in this group, the manufacturer came to the retailer and developed the latter's merchandising interest by offering a highly satisfactory product at a large margin of profit. The individual dealer's effort to secure volume on this product apparently had little effect on the dominant products in the field but the combined pushing of several thousand druggists placed the product, within a short period of time, in a dominant position in the territory so that it outsold everyone of the previous leaders.

Sometime after its introduction its leadership was maintained at the cost of considerable advertising. The product went ahead rapidly, however, because it was meritorious, gave the consumer value, struck a popular note at an opportune time to gain the dealer's cooperation, and gave him real profit. It had all the necessary elements of success, and it was a success. The dealer was able to realize 40 to 50 per cent gross profit on each sale, as against selling goods at cost or even lower for competing products. However, after Z.B.T. had reached dominance in the territory, not only was it subject to terrific price cutting but it soon had 15 imitators. "On your toes" sales promotion activity was the only successful antidote.

Effect of Competitors' Deals on Retailers' Cooperation. If the dealer receives an unusually low price on a deal-offered product, he is likely to load up on that, and consequently have little room in his store for many units of competing products. He will not give attention to any other product in the particular group until he has disposed of his large purchase. This means that a manufacturer can be shut out of many dealers' establishments by the price and dealer policies of his competitors, and his sales volume thereby adversely influenced.

Overstocked Dealers. Very often a dealer is overstocked on items of a group, even though no special price advantage has been granted. When this occurs, no matter how advantageous or how desirable another product may prove to be, or how powerful the campaign behind it, the manufacturer experiences difficulty in trying to get much cooperation from the dealer. This is especially true with regard to products that are purchased seasonally, such as cough remedies, which are bought in June and July; powders and cosmetics, which are usually purchased in early spring; and Christmas units, which are stocked in the late summer and early fall. The dealer is obviously disinclined to add to his already overburdened inventory. His only desire usually is to attempt to dispose of all the merchandise he has on hand as quickly as he can. Therefore, he gives the overstocked products window display, counter display, and personal push far in excess of his ordinary efforts.

The overstocked condition may be due to a poor season, resulting in a large carry-over; poor merchandising, resulting in ineffective selling; or overbuying as the result of manufacturers' sales promotion. Cut prices, low-profit margins on branded goods, and intensive competition between manufacturers resulted in strenuous efforts to load dealers.

Even though the general tendency is in the direction of smaller stocks, forces are at work all the time to create an overloaded retailer. When one manufacturer markets a combination of both shaving cream and talcum, let us say, and the dealer figures that by splitting the articles and selling them separately his leading unit costs him very little, he is likely to load up on the combination unit. This will, in many cases, shut out competition for some months. It is attempts on the part of the manufacturers to force their market or introduce new products at the expense of old ones that very frequently result in a boomerang, and create trade evils that take many months to eliminate.

One of the leading tooth paste manufacturers, a few years ago, received a setback in good will that took some time to overcome because he loaded many thousands of dealers with a combination, and although this combination was so marked that each item was not supposed to be sold separately, it was nevertheless frequently split, and street-corner peddlers hawked the goods at such low prices as to make it impossible for the legitimate dealer to earn a gross profit on the manufacturer's product large enough to cover the expenses of handling it. Since this was in the days before the passage of the Miller-Tydings Bill and the state fair trade acts, it remains to be seen what the effect will be under price maintenance of splitting combinations and selling the premium for whatever they will bring. Already one retailer has done this in New Jersey and the Courts have upheld him.[1]

[1] See Bathasweet *v.* Weissbard Bros., reported in C. C. H. par. 25, 536.

While the O.P.A. regulations have recently prevented this type of companion selling, the drug business is notable for the recurring evils and these problems may again come to plague the manufacturers in the future.

Overloading has caused frozen inventories, closed stores, and considerable credit losses. As a result, the various associations of the retailers have been educating the retailer against overbuying and on operating with greatly reduced stocks. Also organizations of mutual associations and buying groups have been formed to enable the dealer to get low prices on small purchases. These activities curtail loading up, and if continued will place the retail trade in a far healthier condition than ever before and leave the field wide open to new manufacturers.

In many cases where the dealer does buy heavily, he is more than likely buying credit rather than merchandise. Since he gets long credit from wholesalers, any manufacturer who sells direct must face the condition that he has to sell on long terms. When he does that he is selling credit just as much as he is selling merchandise, a factor that should be provided for in his costs.

Underbuying. While the wholesaler is trying to get the retailer to cut down his uneconomic excess purchases, he is also trying to cooperate with the dealer in getting purchases on a reasonable basis, but underbuying can be just as dangerous as overbuying.

Effect of Wholesaling Discount on Sales. When a manufacturer finds it advisable to sell through a wholesaler he should consider carefully the question of wholesaler's discount. Formerly, wholesalers received a discount of 15 per cent and 2 per cent for cash in 10 days; and they seemed to be satisfied with that. They sold their products in unbroken packages, gave no discounts, and made money. However, certain conditions arose that made it necessary for the wholesaler to obtain increased discounts. Among these conditions is the competition he faces from mutual and cooperative buying agencies and chain stores, which has gradually forced him to a position where he gives away a large portion of the discount in order to meet the competition. He tried to meet the situation of disappearing profits by securing larger discounts from the manufacturer, refusing to handle new products unless the discount was greater than 15 per cent. His position is thoroughly covered in the report of the 57th annual meeting of the N.W.D.A.

One of the latest methods used to get wholesaler activity is to offer a p.m. or premium, usually 5 per cent or a fixed amount per unit or deal for the wholesaler's salesmen as extra compensation. If restrictions are placed on these payments so that they are paid directly to the individual salesmen, in many cases they will help sales, particularly with the smaller wholesalers.

When the wholesaler renders efficient service, and this is true of a goodly

number of wholesalers, objection is rarely made to the compensation asked. But many a manufacturer raises the question as to whether he receives from the wholesaler the services and influence he expects for the price he pays. It has been the experience of some manufacturers that it is physically and humanly impossible for the wholesaler, who handles thousands of items, to give more than perfunctory attention to particular products of a manufacturer in his stock. As a matter of fact, the most the manufacturer can expect from his wholesaler is the carrying of complete stocks at all times, to care for orders from dealers for the product. The wholesaler frequently has several hundred deals under way at one time. How can he handle all of them and stir up other business in addition? The wholesaler's sales efforts cannot help being limited on any single item, and when he does do a real job, it is usually on those products where the sales work amounts to little more than order taking or as it is sometimes called a "push-over."

The Wholesaler as a Manufacturer. In many cases, the wholesaler is also a manufacturer and he pays bonuses to his salesmen to push the most profitable items, which are usually his own products. The wholesaler is not going to push the manufacturer's product, on which he makes a factory commission, in face of a product of his own, on which he makes not only the seller's commission but the manufacturer's profit as well. To expect any salesman to do this for the manufacturer is to expect much more than can normally be expected from anyone. It is practically a universal condition in the wholesale field today that the wholesaler is competing, as a producer, with the manufacturer in nearly all of the nonsecret groups, and a goodly number of proprietaries. This narrows the efficiency of the wholesaler as a distributor in so far as his relations with other manufacturers are concerned.

The wholesaler constantly complains that there are too many articles on his shelves. He feels that he does not want to increase his overhead and increase the number of items he has in stock without excellent possibility of profit. Therefore, there is a tendency on his part to avoid the addition of any new products. To stock a new product he must be given large discounts or, by indifference because he is a competitor, he shuts out competition for himself by not adding the product to his line.

Promotional Efforts. Since wholesalers have become manufacturers and manufacturers retailers and general complications have developed in the drug field, it is almost impossible to separate any one group from the other. This is becoming more important as time goes on. If the competition of wholesalers selling their own private brands increases, then all of the problems relating to general competition among manufacturers will have to be faced in connection with the wholesaler as well.

Yet, the wholesaler is, however we look at it, still an important organ in distributing drug products. He should be recognized as such by manufacturers and worked into the marketing campaign as completely as possible. The wholesaler may become more efficient and find it possible to survive and earn greater profits purely as a wholesaler if he follows the formula suggested as the result of the National Drug Store Survey in St. Louis:

From the wholesaler's standpoint a good customer is one who:	From the retailer's standpoint a good supplier is one who:
1. Is located conveniently for service and contact.	1. Carries a complete line.
2. Buys considerable merchandise.	2. Offers reasonable services.
3. Pays bills promptly.	3. Charges reasonable prices.
4. Returns no more merchandise than is absolutely necessary.	4. Carries fresh merchandise.
5. Insists on no unreasonable services.	5. Advises retailer on merchandising matters.
6. Buys each commodity-item in sensible quantities.	6. Protects retailer in every way possible.
7. Orders merchandise no more frequently than necessary.	7. Passes on to all savings resulting from cooperation.

Lee Bristol, of the Bristol Myers Co., at a Drug Products Group Meeting of the Association of National Advertisers defined the wholesaler's function in this fashion:

Couldn't we define the wholesaler's excuse for existence on two grounds: one that he supplies a means of distribution to small accounts; and the other, that he assumes credit risks? Those are the two elements, but beyond that it is rather dubious to hope for much further cooperation from a man whose catalog shows 8000 on his preferred list, or that you are going to be preferred among the group. You give him a discount on that account. You give it to him because he does certain things for you to save you money and you are glad to give it to him.

All the rest of the manufacturer's selling job must be done by himself. In fact, many manufacturers have come to the conclusion that they can expect very little from the wholesaler in the way of sales effort and, consequently, develop their own sales organization.

COMPETITION OF DISSIMILAR PRODUCTS

Many drug products though original face the competition of other products dissimilar in appearance but designed to accomplish a like purpose. For instance, cough remedies. There are many types of cough remedies, some of them competitive with each other and others competitive with entire groups. There are the common cough medicines put out under brand names; the household remedies supplied by druggists under their own

names; and the prescriptions of the doctors—all intended to serve the same purpose. Then there are candy cough cures. More recently, cough aids have been offered in the form of confections, such as chewing gums and hard candies. In addition, certain of the antiseptic mouth washes and nose drops have entered the field of cold remedies, more as preventive than cures, but they have become competitive with each of the other groups.

A product, then, may be original in its selection, such as Feenamint, which is put on the market as a laxative gum, yet it may give to and have serious competition from a group of products different in make-up, but used for the same purpose, as for example Ex-Lax, milk of magnesia tablets, psyllium seed, mineral oils, and the like.

The same situation is to be seen among dentifrices. There, tooth pastes and tooth powders compete with each other and both of them compete, to a greater or lesser degree, with mouth washes. A few years ago, a new type, a liquid dentifrice, entered the field.

Shaving creams are found competing with shaving sticks, soap, and powder, and all of them compete with the brushless shaving creams and electric safety razors, which, in turn, offer competition to manufacturers of shaving brushes, and tend to cut down their volume. It is a serious problem for a manufacturer of razor blades to find that in three years (1935–1938) one electric razor manufacturer sold over 2,000,000 electric razors. That is why almost all the large blade manufacturers were compelled to manufacture electric razors. Then another manufacturer, Pinaud, seized the opportunity to offer the public Swav, a product to be used after shaving with an electric razor. Thus a new field was opened to still other manufacturers. This factor of competition between products of similar and dissimilar nature requires careful analysis before the desirability of the product to be marketed is decided upon. It is unusually important, in so large a market as the drug field, with so many enterprising merchants engaged therein.

Sectional Prejudices. Sections of the country, too, have prejudices that have to be combated. In nearly all trading areas some local products dominate the market, and although they are important only in their home district their sales volume in the aggregate represents a substantial proportion of the total. There are some products whose sales are gradually falling off because they have been outmoded and a new type of product for the same purpose has taken their place. The falling off may be only in certain sections. This makes it difficult and expensive to secure the desired sales volume for the country as a whole. The sectional prejudices take the form of a lower price range, a desire for different sizes or different packages and styles, or just public habit, but whatever the reason, the general mer-

chandising plan must be geared to meet it. For instance, in the south, vanishing creams are still largely used by women as a base for make-up. In the urban areas of the north and east, this product has been largely abandoned in favor of special tinted make-up bases. On investigation many similar prejudices will be found.

COMPETITION OF PRESTIGE PRODUCTS

Competitor and Market Dominance. Analysis needs to be made to discover the extent to which a particular field is dominated by competing products. For many products the leaders may by no means dominate the market. The Modern Magazines' survey shows that many commodities that apparently dominate the market have acquired only a comparatively small share of the entire market.

Modern Magazines' *Survey of Beauty* of 1945 gives the rise and fall of leading brands in each product group—the variations in prices and the increases and decreases in appeal. The advent of new brands is also shown and their displacement of old brands. There are over 40 such charts included in this survey and they are all worth careful study.

Some of these tables and the relative positions of respective brands could, with profit, be studied for the gains and losses shown by various brands. Then further study could be made as to the reasons certain brands gained or lost markets. Was quality changed? Was the advertising changed? Did the management fall down on some distribution problem? Did price policy fail to fit in with changing income? Did a competing product change any one of its distribution policies? Did a new brand come into prominence for any particular reason—copy appeal or some special circumstances?

Household Magazine also made a survey among its readers, who are largely in rural areas. If a comparison is made between the products that are in the lead there and in the cities, it will be found that the same manufacturers usually are dominant in both groups. These studies suggest that all areas of our country respond in much the same way to a good product and efficient sales promotion and that all possible outlets need to be reached in some way or other.

Another interesting survey to study is one by the *American Weekly*. The results they tabulated from over 175,000 questionnaires received in a contest they conducted follow very closely the results of the other surveys mentioned above. The following table gives the percentages of users of various brands of cold creams, soaps, perfumes. The figures represent percentages of those answering the questionnaire.

Cold Creams	Percentage
Pond	39.37
Lady Esther	15.27
Woodbury	11.51
Daggett & Ramsdell	.99
N. H. Ayer	.72
Du Barry	.80
Coty	.72
Junis	.70
Dorothy Gray	.50
Arden	.56
H. Rubinstein	.45
All Others	28.41
	100.00

Toilet Soap	Percentage
Lux	24.87
Ivory	18.96
Palmolive	17.09
Lifebuoy	14.91
Camay	12.62
Woodbury	4.48
Cashmere Bouquet	1.32
Sweetheart	.71
Fairy	.32
All Others	4.72
	100.00

Perfumes	Percentage
Coty	26.35
Evening in Paris	14.50
Yardley	3.75
3 Flowers	3.53
Houbigant	2.51
Guerlain	1.19
Caron	.49
Corday	.36
Springtime in Paris	.29
Chanel	.35
Lanvin	.17
All Others	46.51
	100.00

Although these surveys were taken at different times and among different types of readers they showed not only some differences but also some very interesting parallels. Comparison of the *American Weekly* and the Modern Magazines' surveys of face powder is particularly interesting. Remember that the Modern Magazines' survey was conducted among its own readers, who bought the magazines in the many 5-and-10-cent stores and from the newsstands, while the *American Weekly* survey came from a wide variety of homes. The leader in both cases was the same—Lady Esther. The first five were the same in almost the same order and the percentage difference of all on both surveys was negligible. Furthermore, the total of users of all five in both surveys indicated almost the same degree of dominance. If you compare these two surveys with the one by *Household Magazine,* you will find 4 of the 5 leaders to be the same, with the fifth varying just slightly. The percentage of scattered users is almost the same.

Now if we examine the shaving creams surveys, we find some close parallels also. The four leaders shown in both surveys are the same brand and the percentage differences between the two surveys are negligible. Frequently, slight differences in the relative positions of different brands are accounted for by attendant advertising. Generally, those brands that are advertised regularly in a newspaper or magazine will make a better showing in any survey than those that are not. This, often, has a tendency to cause some changes in relative standing on different surveys.

At any rate these surveys indicate with considerable accuracy the leading brands of various products. It will be noticed, however, that some types of products have a comparatively small percentage of users divided among "all others," whereas others like toilet soap and tooth powders are practically dominated by the leaders. This brings up the question as to what has made the leading brands the leaders. Study in considerable detail could well be undertaken of policies, personnel, and finances that have, apparently, led them to success.

One pertinent fact is noticeable from an analysis of these surveys. Gen-

erally there is enough of the market left to those in the miscellaneous grouping of each product to enable a new competitor to break in. In other words, in very few groups do the five leaders do more than 50 per cent of the business. This indicates, quite definitely, that new enterprises can make progress in the field if properly marketed, despite the business done by the existing leaders in the field.

It would seem that except in a few cases the market cannot be dominated by a single producer in the sense of a 50 per cent or more control of the market. The general market for most drug products and toilet goods is so vast that by obtaining only a small portion of the market a profitable business can be developed. After a product has been selected, it should be marketed with a view to the competitive dominance of the field itself. If 60 per cent of the market is divided among 100 or more competitors, so that no one of them is sufficiently strong to control the field, or if the miscellaneous groups and those outside of the first five do at least 50 per cent of the business, then those factors that have made the competitors weak should be guarded against so that the manufacturer may become strong in the particular group that he has selected. Since tooth pastes and soaps seem to be in strong hands, with comparatively few firms controlling most of the business, whereas there are no dominant brands among rouges, lipstick, nail polishes, and perfume, it is evident that to try to market soap or tooth paste presents greater difficulties than to try to market rouge, lipstick, nail polish or perfume.

It is well to note also that in the surveys the tables indicated the popular price ranges of the various products and the change in the last ten years. Although 43.6 per cent of the purchases by Modern Magazines' readers were in the ten-cent field, 56.4 per cent of the business, and for some products much more, was done in outlets with higher prices. These surveys are important in giving a true picture of the field and in indicating that broad generalizations as to sales possibilities of types of outlets are likely to result in errors of judgment. Very frequently, a price unit may prove popular not because of economy, but just because of convenience or accessibility of the means of purchase.

Age of Brand Susceptibility. After we have felt satisfied that we have found all the answers to our market problem in the previous surveys and we come to the conclusion that we have all the information we need, we discover a new type of survey, called by the originator, Fawcett Publications, "The Age of Brand Susceptibility." Those of us who may have come to the erroneous conclusion that the younger people are shifting their allegiance from product to product and that older folks are more set in their ways, are in for a startling shock from the results indicated below, taking just a few of the more commonly used toiletries as a basis:

TABLE 3. *Toilet Soaps*

Brand preference by age groups among women who bought the same brand at least 8 times out of the last 10 purchases

Brand	(Percentage)								
	Total	16-21	22-27	28-33	34-39	40-45	46-51	52-59	over 60
Lux	23.3	29.2	27.1	22.9	22.9	21.8	20.4	17.8	16.9
Palmolive	17.9	17.9	16.4	11.6	15.7	18.4	17.7	27.4	25.4
Ivory	13.9	13.5	10.3	12.0	13.8	14.0	15.8	19.7	18.5
Lifebuoy	10.5	7.5	9.5	9.8	12.8	9.9	13.8	9.6	13.2
Camay	10.5	10.3	11.9	12.4	11.9	9.2	9.8	5.3	9.0
Woodbury	9.7	8.6	9.7	12.5	8.7	11.8	7.3	8.7	7.9
All Others	14.2	12.9							

Just by way of comparison it is well worth while to take the detail figures of another product in general use in this field.

TABLE 4. *Face Powder*

Brand preference by age groups among women who bought the same brand at least 8 times out of the last 10 purchases

Brand	(Percentage)								
	Total	16-21	22-27	28-33	34-39	40-45	46-51	52-59	over 60
Lady Esther	15.9	17.9	17.2	17.3	14.7	12.9	14.7	13.0	15.5
Coty	14.0	13.9	11.6	11.5	12.9	16.4	16.6	17.8	21.8
Woodbury	7.5	11.3	8.9	5.0	6.0	5.4	7.9	7.5	5.5
Pond's	5.5	7.0	8.0	6.6	5.6	3.6	2.1	2.0	3.6
Max Factor	4.3	5.7	5.3	4.1	3.3	3.0	4.2	6.2	.9
All Others	52.8	44.2	44.9	55.5	57.5	58.7	54.5	53.5	52.7

In the Modern Magazines' survey also there are some interesting charts on brand susceptibility, some of which show the length of time particular brands have been used and others the age of brand preference.

It will be noted from these studies of soap and face powder that the leaders are the same that appear in the other surveys mentioned. What other conclusions we can draw can be obtained from a brief extract from the survey on comparing results in Group I and II products below.

Twelve convenience items most likely to be purchased by women of all ages were used in making this study. They are:

I	II
Cold cream or all purpose cream	Coffee
Deodorant	Canned soup
Lipsticks	Gelatine
Sanitary napkins	Dentifrice
Face powder	Toilet soap
Rouge	Flake soap

The questions asked were:

1. "Which of the above products or articles do you yourself buy?"
2. "How many times out of ten do you buy the same brand?"
3. Where same brand is bought eight or more times out of ten, respondent was asked separately for each product: "How long have you used the brand you most frequently buy?"

The purpose of asking how many times out of ten the same brand was bought was to establish consistency of brand purchases, or in the phrase used throughout this report, to what extent a purchaser is "committed" to a given brand.

Various attempts have been made to trace backward to an age period the beginning of a given brand use. On convenience items this is impossible to do satisfactorily. Memory is too inaccurate and cannot possibly extend over a long enough period of time to record the beginning of use of successive brands to which one may have been committed at different periods.

The alternative to this method is the one used here—to find out what women of different ages do at the present time regarding their consistency of brand purchase or, in other words, their degree of commitment to a given brand; then study these data in the light of trends and differences at different ages. Having assembled these data they were separately analyzed for each different item. After considerable statistical experiment and analysis by Dr. Raymond Franzen, who has collaborated on all steps of this study, it was determined that the maximum degree of commitment, that is the purchase of the same brand ten out of ten times, exemplified any other combinations that could be used and was the simplest, clearest picture to present.

Therefore, the age curves showing commitment are based on this maximum. All percentages for these charts are percentages of users. For example, 56 per cent of the women aged 20 to 22 who use coffee buy the same brand ten out of ten times. The percentage of users data, given at the bottom of each age commitment chart, shows the proportion of women of given ages who purchase such an item at all.

The combinations of products into the four groups shown hereafter were in no way predetermined. They have been grouped together because the cycles of recurrent high or low brand commitment made the same general pattern. Certain more or less obvious reasons for these patterns, for periods of experimenting with new brands or of continued adherence to old ones, presented after the natural groupings were made. These are discussed in the material preceding each group.

For the reader to get the full value of this survey, he should examine the entire study and compare the observations and conclusions with other special surveys made by other publishers.

Price Trends of Leading Brands. In discussing the definite trend to syndicate store purchases in toiletries, particularly, further studies of the thirteen yearly surveys of Modern Magazines will be interesting. Despite the theory, often advanced, that the 10¢ sizes are trial sizes only, and help sell larger units, if the tables on sizes of purchases are to be believed this is not the case. Note particularly how in the last ten years for those products that have both small and large sizes, the proportionate sale of 10¢ sizes has increased rather than the sale of the larger though still generally more economical sizes. The accompanying tables show price trends of leading brands of some toiletries.

Especial attention is directed, on the one hand, to Fitch's Hair Tonic, where the percentage is from 38 per cent to a drop to 6.9 per cent, and to

TABLE 5. *Price Trends of Leading Brands of Face Powder*

Leading Brands	Per Cent of All Purchases Made in 10¢ (or Less) Sizes										Place of Purchase—1945				
	Survey Year														
	1935	1936	1937	1938	1939	1940	1941	1942	1943	1945	Dept. Store	Drug Store	5-and-10-Cent Store	Miscel-laneous	Grand Total
Max Factor	0.0%	0.0%	0.0%	2.3%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%	36.1%	59.3%	4.6%	0.0%	100.0%
Coty	45.0	24.0	18.0	20.2	19.2	15.1	16.3	15.8	3.7	0.0	34.3	61.4	4.3	0.0	100.0
Woodbury	49.0	23.0	43.0	37.9	38.8	40.8	42.1	36.3	32.1	17.2	10.0	31.1	56.7	2.2	100.0
Lady Esther	41.0	31.0	35.0	33.1	39.8	38.5	32.7	32.8	31.6	17.9	14.9	36.8	46.0	2.3	100.0
Evening in Paris	0.0	0.0	0.0	0.0	14.6	9.0	10.0	0.0	10.6	5.3	21.6	71.2	6.3	0.9	100.0
Avon	—	—	—	—	—	—	—	—	—	0.0	0.0	0.0	0.0	100.0	100.0
Pond's	52.0	42.0	49.0	43.7	43.2	53.2	41.4	48.4	43.1	19.5	7.9	40.4	50.6	1.1	100.0
Richard Hudnut	—	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	45.6	50.9	3.5	0.0	100.0
Cashmere Bouquet	—	—	—	—	—	—	—	—	58.1	33.3	9.4	25.0	65.6	0.0	100.0
All Others	—	—	—	—	—	—	—	—	—	7.4	39.2	38.8	21.7	0.3	100.0
Total All Brands	26.0%	24.5%	25.0%	25.9%	25.1%	24.1%	21.6%	22.7%	18.1%	8.1%	27.8%	45.5%	23.4%	3.3%	100.0%

Courtesy Dell Publishing Co., Inc.

TABLE 6. *Price Trends of Leading Brands of Hair Tonic*

Leading Brands	Per Cent of All Purchases Made in 10¢ (or Less) Sizes — Survey Year 1935	1936	1937	1938	1939	1940	1941	1942	1943	1945	Place of Purchase—1945: Dept. Store	Drug Store	5-and-10-Cent Store	Miscel-laneous	Grand Total
Vaseline	—	—	—	37.0%	41.2%	29.2%	40.0%	22.8%	15.3%	13.6%	7.3%	58.2%	34.5%	0.0%	100.0%
Fitch	38.0	40.0	28.0	37.5	38.2	29.7	32.8	15.8	20.8	6.9	8.7	56.5	34.8	0.0	100.0
Jeris	—	—	—	—	—	—	—	0.0	0.0	0.0	8.3	91.7	0.0	0.0	100.0
Wildroot	32.0	12.0	30.0	20.0	30.8	12.5	13.3	22.2	25.0	6.2	13.3	86.7	0.0	0.0	100.0
Kreml	7.0	27.0	11.0	15.0	19.0	13.6	25.0	11.8	0.0	0.0	20.0	60.0	13.3	6.7	100.0
All Others	—	—	—	—	—	—	—	—	—	4.2	12.2	70.7	9.8	7.3	100.0
Total All Brands	20.0%	26.0%	24.0%	23.6%	23.6%	21.0%	23.2%	17.3%	15.4%	7.3%	10.5%	65.8%	21.1%	2.6%	100.0%

Courtesy Dell Publishing Co., Inc.

TABLE 7. *Price Trends of Leading Brands of Nail Polish*

Leading Brands	Per Cent of All Purchases Made in 10¢ (or Less) Sizes — Survey Year										Place of Purchase—1945				
	1935	1936	1937	1938	1939	1940	1941	1942	1943	1945	Dept. Store	Drug Store	5-and-10-Cent Store	Miscel-laneous	Grand Total
Revlon	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	48.2%	45.9%	5.9%	0.0%	100.0%
Cutex	66.0	73.0	81.0	82.9	88.4	90.0	95.0	92.4	93.4	88.8	5.9	17.4	75.4	1.3	100.0
Chen Yu	—	—	—	—	—	—	—	0.0	0.0	0.0	32.8	62.4	4.2	0.6	100.0
Dura-Gloss	—	—	—	—	100.0	97.6	100.0	100.0	100.0	94.8	4.3	15.8	79.3	0.6	100.0
Dr. Ellis	—	—	—	—	—	—	—	100.0	100.0	95.2	4.5	4.5	91.0	0.0	100.0
Avon	—	—	—	—	—	—	—	0.0	0.0	0.0	0.0	0.0	0.0	100.0	100.0
La Cross	—	—	—	—	—	—	—	—	—	0.0	18.7	62.6	18.7	0.0	100.0
All Others	—	—	—	—	—	—	—	—	—	46.3	22.5	28.8	46.2	2.5	100.0
Total All Brands	72.0%	72.0%	73.0%	77.5%	75.9%	75.9%	78.5%	75.2%	64.9%	43.6%	24.4%	33.8%	40.2%	1.6%	100.0%

Courtesy Dell Publishing Co., Inc.

Cutex Nail Polish, which shows a steady increase of its total from 66.0 to 88.8 per cent of the total in the 10¢ size; but all other increases among all brands of all products should also be noted. On the other hand it will be noted from other tables of Modern Magazines' studies that there seems to be a decline in the percentage of almost all creams. This is probably due mainly to the nature of the product, as the quantity of cream usually given in the 10¢ sizes is one ounce or less. This quantity is used up so rapidly that most users find it advisable to buy in larger sizes. In the war years 1941 to 1945, there was a steady scarcity of low-priced containers, and better economic conditions created a trend toward higher-priced units. On the whole, however, these surveys indicate that it is fallacious reasoning to think that the 10¢ sizes are large samples. A detailed analysis of this Modern Magazines' survey by the reader will give a more complete picture with respect to many cosmetic products.

SUCCESS IN SPITE OF COMPETITION

The surest way to success and the line of least resistance is to develop a new idea, new package, or even a new conception of an old idea, to influence the public in your favor. In this way you become a leader and not an imitator and with proper merchandising policies, based on an acceptable product, with care for research on marketing and consumer preferences, success—despite the intense competition—is possible. A glance at the famous names of twenty years ago and today will disclose many that have slipped, some that have disappeared, and "upstarts" that have forged to the front. Despite the apparent pessimistic forecasts indicated in the previous pages "all is not lost" for the new entrepreneur in these fields. It is true, however, that many have been found wanting. Strange to state, the size of the purse was not the governing factor, because there have been some costly "flops" in the last ten years by large firms who had ample funds available. LaLasine Mouth Wash and Junius Facial Cream did not lack for funds and they got nowhere. On the other hand, many firms with limited capital and an idea, plus sound merchandising judgment, made considerable headway at the same time. The history of Hennafoam, now called Gleam, is a story of success in spite of the handicaps of declining sales volume and poor handling over a period of years.

These experiences should convince any manufacturer that what is required more than anything else is an acceptable product, properly and carefully marketed with a close tie-up of soundly planned merchandising together with efficient, prudent and economical advertising. In succeeding chapters we propose to describe the general marketing and advertising procedure required to gain these results with a minimum of errors and risks.

Chapter 4

THE DEVELOPMENT OF DRUG STORE MARKETING

This chapter tells the reader many things about drug stores, their development into general merchandise stores, and the movement back again to what is known as the ethical drug store. The druggist is an asset to the community in more ways than just that of handling drugs. As a professional man the druggist is consulted by both doctor and dentist, and also has an influence on the general public as to what products they buy. There has been an increasing dominance, especially in urban districts, by drug chains. The drug chains compete with the independents, with each other, and also with the manufacturers, for often the chains make their own products. The chains themselves face competition from the pineboard stores, supermarkets, and variety stores. Since the manufacturer has taken over much of the filling of prescriptions formerly done by the druggist, the latter needs to learn merchandising as well as the compounding of prescriptions. The wholesaler is important to the retailer and also to the manufacturer, but sometimes he conflicts with the manufacturer by himself becoming a manufacturer. Also retailers have become manufacturers, and thus compete with the latter. This chapter shows also the importance of drug and cosmetic merchandising to the publishers of advertising.

Today, a person who patronizes a drug store realizes that he is, in fact, not visiting a drug store but rather a modern form of the old-style general merchandise establishment. The so-called drug store is today an important outlet, not only for drugs and toilet accessories, but for many other products as well.

MERCHANDISE DIVERSIFICATION IN DRUG STORES

The Place of the Drug Store in the Community. Since 1915 the trend toward diversification has become widespread. Today food and tobacco products, clocks and electrical appliances are sold over the drug store counter. Drug stores have even become neighborhood circulating libraries. Nevertheless, the drug store is different from the old general store and requires a different approach. This was well indicated by the National Wholesale Druggists' Association in one of its recent studies. It said:

Lincoln once said of the small, country "general store" that it was a symbol of American progress and civilization, a focus of human needs, alive with the heartbeat of man's contact with man.

In a progressive generation, the modernized drug store has come to take its place, along very wonderful and strategic lines. The apothecary of ancient days,

tucked away in some modest little place, has witnessed the inexorable march forward of an ideal to the point where, now, the druggist and his shop represent a community need, more far-reaching and more significant than could be true of the old regime.

Not until the drug stores of the nation are studied in the aggregate, and their combined selling power is analyzed, is it possible to measure the service they perform in behalf of their communities, their allied interests, and the distributive efforts of the manufacturer-advertiser.

. . . The great and undeniable democracy of the modern drug store individualizes it from most other retail outlets. It is an open forum for all, playing no favorites and inviting the steady patronage of rich and poor alike. Men, women, and children pass through its door ceaselessly. In the majority of communities it is open for business for more hours than any other retail establishment.

The druggist himself is in many respects a professional man; certainly he is far more than a "merchant" in the accepted sense; his advice is sought and heeded by the consumers of the merchandise he sells. His recommendations or his disapproval exercises to a marked degree the power to popularize a product, or to retard it. The local druggist is, in a sense, a "Little Father" in his own territory, trusted and believed in.

To secure the complete cooperation of this merchant, to win him to your side as a friend, is clearly to gain an indispensable business asset.[1]

The present modernized drug store has grown along very definite lines that are important to other fields of economic activities. No longer is the apothecary tucked away in some inexpensive spot, out of sight, off the beaten path, and marked by a drab exterior and apparent magic inside. Today the druggist frequently occupies the strategic corners characteristic of the liquor business prior to prohibition. Even with the return of the liquor store, the druggist still occupies the most favorable corner. There is one or, frequently, two druggists on the corners of many traffic crossings. The druggist's expenditures for equipment and fixtures are usually greater than those of any other retailer. The drug store has taken the place of the saloon as the neighborhood information bureau for young and old, rich and poor. The druggist is open for business from 12 to 15 hours on all week days and part of Sundays. Because of his professional standing, the drug retailer is obliged to give considerable unpaid service. Among these services we find the selling of postage stamps, the cashing of checks, acting as semimedical adviser and, in the poorer sections, as messenger boy for phone service or messages, and the conducting of a parcel-checking center for the community.

Development of Diversification. The unusual relation of a professional, like a druggist, as an exponent of diversification in retailing was clearly stated by John B. Guernsey, of the United States Census Bureau, in commenting on the first United States Census of Distribution, taken in 1930 for 1929, when he said, "The drug stores were one of the first retail

[1] *Marketing Your Product Through Retail Drug Stores*, p. 3.

specialty groups to diversify their merchandise, and the goods had little apparent relationship to the general line of merchandise carried."[2]

The druggist began to widen the scope of his operations as certain conditions made it increasingly difficult to operate at a profit. As the doctor began to prescribe and recommend proprietaries, and as the public became more addicted to self-medication, the druggist, while doing no less business than he did before, found that his net profits were considerably reduced, because his gross profit on proprietaries is usually only 30 to 40 per cent as compared with much greater gross profits, sometimes several hundred per cent, made through filling prescriptions. Furthermore, the improved sanitation of the community, the greater care people took of their diets, and the widespread adoption of physical exercise as an aid to maintaining good health curtailed the demand for medicants. Increasing rentals and increasing competition made it necessary for the retailer to meet these conditions by increasing his sales volume, which he did through increased diversification of merchandise sold.

In addition to these factors some retail stores that had not, in the past, handled drug store products began encroaching on the druggist's market—selling proprietaries, toilet articles, candy, and disinfectants. This encroachment is by the cosmetic shop, the department store, the variety store, and even a still more recent development, the so-called supermarkets.

Merchandising thirty or forty years ago was different for the druggist from what it is today. He then handled what he thought was best for his trade. His customers looked to him for recommendations of minor medicants to fulfill their needs. They exercised little choice as to what they wanted, because they trusted the professionally trained man behind the counter to select for them.

Today increased advertising and improvement in merchandising methods have educated the public to make selections in the drug field other than those suggested by the druggist. This development has made necessary a change in drug merchandising, and the methods of other merchants have been emulated by the druggist. He has become more of a storekeeper and less of an advisory professional man. Also, the type of merchandise sold in drug stores today is the same in small towns as in the big city stores. There is no longer a difference in the character of these outlets, and the per capita consumption of many products is as great in small communities as in the great cities.

Drug and associate stores have become important merchandising outlets in the retail field for many products but with problems peculiar to themselves. Although the druggist is an indispensable business asset to any

[2] A.N.A. *News Bulletin*, Vol. 15, No. 23, p. 258.

manufacturer, he still is confronted with problems, chiefly of his own making, the solution of which he must find for himself.

THE DRUGGIST AS A PROFESSIONAL MAN

Drug Store Merchandising in Relation to Medicine and Dentistry. The independent druggist, who still does most of the business in the field, is a professional man. His professional background influences his merchandising activities—a situation that is not characteristic of other retailers. He spends some years, usually in a professional school, preparing for the proper and careful compounding of prescriptions. He serves an apprenticeship of several years as a junior clerk characterized by long hours and poor pay, and then as a registered pharmacist. His background builds prestige and secures him considerable customer confidence. This gives him some trading advantages. Years ago, many retail druggists were physicians and, in the smaller communities, the combination of the medical profession and pharmacy was widespread. Although this condition still exists in some parts of the country, it is rapidly disappearing. However, the druggist is still one of the guardians of the public health, consulted and referred to by both doctor and dentist, a counselor in drugs and a custodian of medical supplies for public emergency.

Influence of the Dealer as a Professional Man on Sales. Where the druggist still has professional standing in the community, the effect of his preference on sales to the public is important. It is generally in cities of 25,000 or less, or country districts, that this situation exists. The manufacturer must give consideration to this and also to the influence exercised by the dealer on the doctor. For these reasons, in the merchandising of drug products more attention is paid to securing the good will of the retailer than is the case with almost any other type of retail dealer. There is much catering to his whims, temperaments, reactions, personal feelings, and finances. Manufacturers need his good will and try, by using inducements of all kinds, to gain as much of his personal endorsement and active cooperation as they can.

To get the retailer to express and to indicate a preference, when consumers are undecided as to brand preference, is the ambition of every manufacturer who sells his product through the drug store. Many intricate plans and merchandising stunts, such as deals, free goods, cooperative groups, associations, stock bonuses and the like, have been evolved for that express purpose.

The following figures from a survey made by *Druggists Circular* [3] show how important druggists' preferences can be:

[3] Reported in a letter to Sidney Picker dated September 30, 1931. See also in this connection the study by Louis Bader in *Journal of Marketing*, July 1934, entitled, "Customer Preference in Grocery Products."

350 calls were made: 240 cases the public specified the brand, 32 cases the public took the brand suggested by the dealer in an attempt to switch the original requested brand, and in 78 cases took the brand suggested by the dealer when no brand was specified.

It will be noted that 75 per cent of the merchandise in any one territory may be purchased by brand preference, but there are so many competitors to share this 75 per cent of preference that generally no one competitor gets more than 5 to 10 per cent of the total. The remaining 25 per cent of volume at the disposal of the dealer affords a very profitable field in which the private-brand operator can work. If he is successful in gaining the dealer's good will, he can be assured of enough business from the remaining 25 per cent to make a substantial profit. Price cutting, which will be discussed later, has increased the tendency toward private brands. This tendency reached its peak in 1933, but fell off in favor of advertised products during the period of the codes. Now that the codes have been eliminated, the state fair trade laws and the federal Tydings-Miller Bill are taking their place in aiding the sale of branded and advertised products. Detailed discussion on the effects of fair trade laws will be found in the chapter on price legislation (Chapter 17).

Professional training and standing of the druggist are factors in the problem of merchandising from another angle. As well-trained individuals, druggists are in a position to know the formulas for many of the patent, proprietary, and cosmetic products they are asked to sell. Consequently, if they enjoy the confidence of consumers in their trading areas they may, if the products offered them for re-sale do not yield sufficient profit, produce their own private brands and offer them in place of the widely advertised and nationally known products.

The attempt to gain dealer preference is thought to be so necessary that it has reached even to the point of trying to gain the endorsement of drug clerks through the use of push money or premium money paid to sales people for extra effort on selected items, sales contests, prizes, and other similar plans.

INFLUENCE OF CHAIN STORE MERCHANDISING

Importance of Chain Store in Drug Field. In urban centers there has been a gradual and increasing sales dominance by the chain stores. They are especially dominant in the drug field in many cities. The chain store is usually better equipped, more attractive, larger in size, and carries a wider variety of merchandise than the independent dealer; the show windows are usually larger and more attractively trimmed; the inventory is controlled; and stores are usually at traffic centers. As a result, the

chain stores' average volume per unit store is far greater than that of the independent dealers' unit. The average yearly dollar volume of sales per chain drug store in the United States in 1939 was $100,000 as against an average of $23,000 sales for the independent store.[4] In some cities, like Washington, Detroit, Cleveland, Cincinnati, Mobile, Oklahoma City, Fort Worth and other places, the chains seem to dominate the drug business. Even in other large cities they do a great part of the total business as may be seen from the *Chain Store Age* map on page 100. Since for the country as a whole drug chains do only about 25.7 per cent of the total, these communities become important. In terms of dollars it means that of total drug store sales of $1,562,502,000 the chains secured $400,262,000 in 1939. The chains have acquired considerable buying power, for instance doing over 40 per cent of urban business in 1943,[5] and must be given an important place in any merchandising plan.

Trend of Chain Store Merchandising. In the early years of chain merchandising, the advantage that the chain has because of its larger purchasing power and the extra discounts that it received enabled it to sell at lower prices than competitors and still show a profit. Lower prices, while the chief, was not the only, factor operating to this end. The chain store systems were aided by the use of the most desirable locations and superior executive and merchandising personnel. This enabled them to secure a faster turnover, and, even at lower profit margin per unit sold, the business was on the whole more profitable.

In recent years, the drug chains have not been finding the path to increased business easy, partly because they have created their own competition; they have fought with each other for volume sales. Furthermore, there has been a tendency on the part of manufacturers to cut out special allowances given under the guise of advertising allowance. Under the drug code this practice was forbidden and chains, although they were still paid for advertising cooperation, were expected, at least, to do something to warrant such allowances. Now with the Robinson-Patman and fair trade acts on the statute books, and with the Federal Trade Commission empowered to watch for violations of the Robinson-Patman Act—which covers fictitious brokerage, quantity discounts, and other allowances—the advantage of mass buying power may have been materially curtailed.

The fight for increased sales volume usually centered around two powerful chains in any community—or even two small groups of chains—who started using the same weapon, price cutting, to fight each other. The result was the gradual diminishing of gross profit margins and finally the

[4] Census of Business, Retail Trade, 1939, Vol. 1, Part 1, p. 64.
[5] "Chain Drug Marketing Map," *Chain Store Age*, 1944.

elimination of net profits. High-cost leases and rentals of the period before the stock market crash of 1929 remained in the chain field for some time after business had dropped off.

These conditions caused many chains to go through bankruptcy and reorganization, or to threaten bankruptcy to reduce high lease costs. This trend in the reduction of overhead also tended to eliminate price cutting. It has become so widespread that landlords have voluntarily made many rent adjustments to prevent tenants from taking the steps indicated. In the late 1930's one of the largest chains disclosed in its statement of profits that 65 per cent of its net profit came from the operation of its soda fountain and the sale of cooked food, the competition on drug items having reduced profits to a small fraction of what they could be.

Recently a rather strange condition has come about. The cut-price chains, so bombastic in their actions a few years ago, have become more conservative in pricing and advertising, and their place, in this respect, has been taken by (1) the new, small pineboard drug and cosmetic shops and (2) the so-called supermarkets started by operators of food stores in old unused garages, auto plants, and armories. Not content with handling only food, they installed departments covering other products, not the least of which were drugs and cosmetics. The drug chain faces many of this new type of "nibbler" at its business. To these must be added the drug departments in charge of registered pharmacists recently started in some of the variety stores. The effect of this latter merchandising effort cannot yet be determined, as the attempt is too recent. These conditions tend to make the situation more complicated. They compel the chain drug stores to push their own private brands in preference to advertised brands. In practically every chain drug unit in the country, instructions, absolute and definite, are given to push the merchandise sold under the firm's private brand. Sales clerks are given p.m 's, prizes, and bonuses. As a matter of fact, continued employment of a clerk depends on his percentage of sales of these private brands. If a large percentage of the clerk's sales are not in the store private-brand merchandise, he is warned and later, unless his record improves, he is discharged. This makes every drug chain system a competitor of practically all independent drug and toiletry manufacturers. There are some products, such as pharmaceuticals, that cannot readily be put up under a private brand, but they are exceptions.

The Chain Drug Store as a Competitor of the Manufacturer. The marketing and merchandising plans of the manufacturer must be guided by the preceding facts. The chain store as an outlet is necessary to almost every merchandising scheme, unless the product is purely ethical, in which case chain outlets are not so important as other outlets. At the same time,

the chain, through every store manager and clerk, is fighting the merchandising efforts of the manufacturer, and is an important competitor.

Since the chain is competing with the merchandising efforts of manufacturers with products of its own, manufacturers have been inclined to give inside discounts and special favors to the chain store. They felt that by enabling the chain to buy at a more favorable discount, and so earn profits even though selling at cut prices, they would at least not encounter the active opposition of the chain management to their product. The manufacturer might, by following a special-price policy, obtain the chain's active cooperation in those cases where the chain has not yet created a directly competing product.

Frequently, the cooperation of chain systems is not obtained, and many firms, through their extra discounts, pay for services they do not get. In this connection, manufacturers might well bear in mind that despite the efforts of the chains, well-advertised, well-merchandised, and desirable products have overcome chain indifference to a product. Manufacturers are prone to pay too much for the chain cooperation they are supposed to receive. It is not our thought to imply that this special consideration is not worth getting. It is—if you get what you pay for. Be sure that there is a mutual understanding as to what is being purchased in the way of chain cooperation and as to what will be delivered. Some chains can be relied upon to live up to their arrangements with punctilious honesty; others ask for advertising allowances and promise special cooperation, but fail to cooperate, using the allowance merely as a means of securing a lower price.

There is no doubt that chains help considerably in the merchandising of a product, despite the fact that the chain is potentially a competitor of many manufacturers. The competition of chains is more pronounced in toiletries, nonsecrets, and proprietaries than in foods, confectionery, tobaccos, and ethical medicines. In other words the chain attempts to profit by the retailer's professional standing with professional and toilet products of its own manufacture. It is, therefore, more important for the manufacturer whose product is likely to be duplicated to be fully aware of the chain competition than it would be for those of the heterogeneous products that are sold through the drug chains but are not specifically drug products.

CHARACTER OF DRUG STORE MERCHANDISING

Analysis of Drug Store Sales. There is some misinformation and considerable misconception of the types and character of merchandise sold through what are known as drug outlets. The Census of Business for 1939 classified drug store sales as made up as follows:[6]

[6] *Census of Business, Retail Trade:* 1939, Vol. 1, Part 2, p. 510.

Drug Store Sales in Per Cent

	Annual Sales $20,000 and More	Less than $20,000
Prescriptions	9.8	13.4
Drugs, medicines, and chemical compounds	24.3	
Drug sundries	10.8	44.1
Cosmetics, soaps, etc.	9.7	
Cigars, cigarettes, and tobaccos	16.1	13.8
Meals and fountain	16.8	12.2
Beer, wines, and liquors	5.6	3.4
Other items	6.9	13.1

Nearly 60 per cent of the average store business is purely drug store items. The rest of the business comes from items added that formerly were bought exclusively in other stores.

Compare the above with the same condition that existed five, ten, and twenty-five years earlier. For example, in 1910 it was estimated that druggists' sales were divided in the various departments as follows:

Departments	Percentage
Prescriptions	48
Patents	36
Tobacco	3
Fountain	4
Toilet articles	4
Rubber goods	3
Sundries, misc.	2

Analyzing the above figures, it is easy to see that the druggist has become a very important outlet in many fields, and, at the same time, straight drug business has become less important to him.

Thirty years ago over 80 per cent of the drug business was in prescription and general drugs. When we realize that there are only about 600 families to every drug store outlet and consider the competition from many stores of other types that are handling drug products, we can easily see how necessary it has become for the druggist to branch out into other merchandise lines.

Influence of Manufacturers on Drug Store Merchandising. The great success and tremendous efforts exerted by the proprietary manufacturers and leading pharmaceutical manufacturers to establish their own specialties with physicians have resulted in a gradual diminishing of prescription medication and the transferring of the most profitable end of the drug store business into the hands of the well-regarded manufacturer.

It is not pertinent, at the moment, whether the transfer has been for the benefit of the public. There is no doubt that the standardization of drug products by the manufacturers, with their well-equipped laboratories, has made the practitioner—both medical and dental—more susceptible to the use of the proprietary offered for his consideration than the compounding of the prescriptions by individuals in drug stores. This attitude has been

helped by the many important discoveries in the field of medicine and pharmacy that are directly attributable to the research studies of manufacturers.

This trend has probably diverted the sales of some drug merchandise away from the druggist and reduced profits on doctors' prescriptions. How important this is may be seen from the statement of Topics Publishing Co. that even in the 1930's more than 80 per cent of the prescriptions filled by druggists were not compounded within the pharmacy at all but were, instead, sold on doctors' prescriptions either in original form or simply transferred from the pharmaceutical manufacturer's container to the druggist's container to be so dispensed.[7] Even this is substantial business for drug stores as a group. According to a compilation by *Drug Topics*,[8] drug stores filled 253,660,610 prescriptions in 1943 and these had a value of $265,802,097. For the individual stores this meant an average of 4568 prescriptions with an average sales value of $4787.

From these facts it can easily be seen why drug store merchandising has developed away from the compounding of prescriptions and gone over into the general merchandising field and that has stepped up sales values to many times that of prescription business.

Training of Druggists in Merchandising. Formerly the druggist spent many years in technical training that had little if any effect on improving his ability to merchandise properly. Now, however, we find in the pharmacy schools an effort to teach the druggist merchandising as well as pharmacy. Manufacturers also devote many thousands of dollars trying to teach the dealers merchandising. They are compelled to do so if they want their products to receive the favored attention of the retailer and if they are to meet the competition growing out of the specialized attention that the chains are giving to their own private brands.

> "Many wholesale druggists have added merchandising men to their staffs during the past year," according to a survey recently completed by *The Wholesale Druggist*. This step has been taken because of the increased willingness of retail druggists to accept advice and practical suggestions as to how to hold their trade against high pressure cut-price competition. The chief functions performed by these men are to assist the retailers with their window and counter displays, their open displays, and with their retail advertising.[9]

Merchandising for many druggists might have been very different in recent years had they received proper training along that line.

CONSUMER HABITS IN RELATION TO DRUG STORE MERCHANDISING

Loyalty to Local Stores. For some time, appeal for public favor through price cutting has engaged the attention of everyone in the field.

7 Letter of Topics Publishing Co., Sept. 28, 1931.
8 *Drug Topics*, May 1, 1944.
9 Quoted in A.N.A. *News Bulletin*, Vol. 15, No. 31, p. 354

Not only do we have price cutting by the ordinary chains but also the price cutting of the pineboard shops, perfume shops, supermarkets, and so on. What led up to these conditions and the probable results will be discussed later. What the public's reaction will be is still to be determined.

It has been found, from actual tests, that in the main (the survey was conducted in small towns and cities) a smaller proportion of toiletries and drugs than of any other commodity is purchased by the public away from home. Part of this, no doubt, is due to the fact that prescriptions and such products are emergency purchases made without loss of time. A recent survey by the Department of Commerce discloses that some purchases made out-of-town showed the following percentages of the total of product purchased.[10]

Product	Percentages
Drugs	6.0
Groceries	7.1
Houseware	15.3
Hardware	16.5
Meats	22.9
Furniture	26.2
Dry goods	38.9
Novelties	44.3
Shoes	50.0
Jewelry	50.4
Ready to wear	55.7

Loyalty to local stores assures the retail druggist of most of the business of his community, and explains why the independent drug retailer still retains an important position as a distributor. With the advantage of public favor, it seems strange that the independent drug retailer cannot find the means to do a more profitable business in his field—especially since he is actually needed by the public. However, if the tire industry in the hands of a few large firms could not prevent, because of the dream of power and the desire of 100 per cent production, the demoralization of that industry, what can be expected of 60,000 retailers—who have 60,000 different thoughts, fears, and ideas—toward helping to stabilize their industry? It was thought that some of the plans and efforts of the manufacturers to help druggists make a profit through the effective handling of the Drug Code would be more successful. That was questionable, and the elimination of codes and the National Recovery Administration put the industry back almost to the old stage of price cutting and terrific competition. This condition has been largely corrected by the passage of the Robinson-Patman Act of 1936, the Tydings-Miller Act in 1937, and the state fair trade acts now on the statute books of 45 states. War conditions with shortages of merchandise have made the druggist observe fair trade prices almost universally. How long this will continue with competition again fully re-

[10] Reported in A.N.A. *News Bulletin*, Vol. 15, No. 23, p. 264.

stored remains to be seen. There is danger that the legislation may have gone too far and have made the drug industry the target of attacks because of high prices.[11]

Consumer Purchases in Drug Stores. According to the estimates of the National Wholesale Druggists' Association, the average American in 1943 spent $20.00 in the drug store. But this average varies greatly in different parts of the country. In a low-income area such as the rural county of Fayette, Ala., the average is less than $8.00 per person, while for urban areas (as shown in a table on p. 89) the average ranges between $17.70 for Buffalo, N. Y. to $68.00 for Washington, D. C.

The same thing is true of average annual sales per drug store. For the country as a whole they average about $50,000. For Fayette, Ala., they average about $27,000 and for Washington, D. C., about $168,000. These figures will, obviously, change from year to year as consumer income and population change. Consequently, the trade ought to make surveys periodically and then inform the druggists of the average figures, since these probably change as income rises and falls. Possibly, druggists through their local associations could make such surveys or calculations through cooperative action. Then the store that did not make the average should examine its merchandising policies and inventories and study its market to discover where it is falling down.

The Trade Area of the Retailer. Based on population averages the retail druggist has had about 2000 customers from which to draw during the past twenty years. During much of this time the purchasing power of the community was better than ever before, yet many still found it impossible to make a profit. This is the concern of the manufacturer as well as the retailer. It is a well-known axiom that no business in which a salesman cannot make a profit can be successful, and no industry in which the dealer cannot make a profit can be successful.

It may be necessary to go back to the conditions that existed in the Middle Ages where in some cities new drug stores could not be opened without special license from the government. An attempt has been made in this direction through laws limiting the organization of corporations that own drug stores and requiring that pharmacists be present in the store at all times. The possibilities, however, are not good since in the states of New York and Pennsylvania ownership laws have been declared unconstitutional. *Drug Topics* reports on Long Beach, California, where in that one county a cooperative effort has been made to curtail the opening of unnecessary drug stores. A newcomer in the territory who wants to open a store is politely informed where and where not such a store is advisable.

[11] In this connection see "Consumer Movements and Business," by Bader and Wernette, *Journal of Marketing,* July 1938.

The cooperation in the county is so close that even the real estate owners do not rent stores for that purpose where the conditions indicate that a store will not thrive, and bankers join with the others, by pointing out the desirable and undesirable locations when a newcomer comes in to talk over the matter with one of them.

WHOLESALING DRUG PRODUCTS

The Influence of the Wholesaler. In his marketing efforts the manufacturer of drug and toilet goods has been fortunate in the fact that the drug wholesaler is and has been ready to supply the individual retailer's needs. One of the larger wholesale firms has stated that it carries an inventory of over 100,000 items. Few, if any, retailers could afford the overhead burden of the many items they must be able to supply quickly to stay in business. In the case of products that have many shades such as lipsticks, and nail polishes, the average wholesaler may have to carry up to 30 brands with 8 to 10 shades for each brand.

The large number of competing similar products has had several important reactions in marketing through wholesalers. First, the wholesaler is cold to anything new offered by any manufacturer because to him there is "nothing new," rather, it is just another product to add to his already burdened inventory. He probably has in his stock plenty of items that are just as good as the one the manufacturer is trying to market through him, and probably quite a number have been "dead stock" for some time.

Furthermore, the wholesaler has been compelled to adopt a more or less paternalistic attitude toward his retailer. The retailer, in most cases, is heavily indebted to the wholesaler. In many cases, if the wholesaler closed down on credit to the retailer, the retailer would be forced out of business. The wholesaler is very anxious to see to it that the dealer keeps his stock up to date, is not loaded down with slow-moving merchandise, and does not overbuy. There are certain specials that the dealer must buy from the wholesaler at all times; and credit limits have to be watched.

The wholesaler in order to stay in business in the face of problems of price cutting that arise from time to time and manufacturer-direct-to-dealer competition has had to become a manufacturer of many products. Because of his hold on the retailer through granting credit, his reluctance to add new lines because of his skepticism as to the salability of new products, and his competitive slant, as a manufacturer of many items, the wholesaler is simultaneously both an important aid and a stumbling block to the manufacturer. War conditions brought on contradictory conditions. Some wholesalers were faced with a help problem, especially in their shipping rooms, and therefore would not add new items. Other wholesalers found that they were short of many lines and looked for replacements to fill in the

gaps in volume brought about by scarcities. This situation, however, is over and the former policy of carrying full lines and styles is now in vogue.

Conflict of Interest with Manufacturers. From the wholesaling standpoint price competition and loss of personal contact with the retailer may interfere with the hopes of large profits through reduced overhead, both manufacturing and selling, growing out of mergers and consolidations.

The manufacturer, before he can get an individual wholesale house of the McKesson & Robbins group to give him any support at all, must go to the main office in New York to clear the item. That means that the local branches of the wholesaler usually cannot take advantage of conditions peculiar to their territory as easily as they did when they were individually owned. This makes it more difficult for the manufacturer to do his selling direct to the retailer in small lots, with the idea of taking turnover orders where McKesson & Robbins houses are strong. Although direct selling today by many manufacturers has cut heavily into the wholesaler's business, the swing back the other way was forced by war conditions. Difficulties of travel made complete coverage by manufacturers' salesmen less possible so that more reliance had to be placed on the wholesaler. This condition is now changing.

THE RETAILER AND THE MANUFACTURER

Store Ownership and Relation to Manufacturing. When the United Drug Co. was first organized it gave franchises on most favorable terms to dealers for the sale of its products. These dealers were known as Rexall agents. This was one of the early cooperative methods of merchandising, which will be discussed later (Chapter 11). More than twenty-five years ago, through some business mishap, they came into control of one of their Rexall agencies, and from this grew the tremendous Liggett chain of drug stores, the largest in the country at the present time, with over 600 units in 1945, and the leading sales agents for Rexall products. However, though Liggett's is the largest of the Rexall agencies, plans were initiated in 1946 to expand the number of independently owned Rexall agencies to broaden the base of Rexall sales.

Apparently, the United Drug Co. discovered that even though they operated their own stores and established dealer agencies and cooperated all they could with them, this procedure was not sufficient to secure enough business to operate their manufacturing plants successfully. In 1929, through a holding corporation, Drug, Inc. (since dissolved), they purchased Sterling Products and Household Products—two manufacturing units that were the owners of a number of nationally advertised drug products sold not only in the Rexall stores but in all drug stores. The company history has been rather interesting. First the Rexall line gained considerable pub-

lic acceptance through the pushing efforts of its dealers. After a time, however, the public demand and favor for other advertised products were so great that it was impossible for the Rexall distributors, especially those outlets owned by the parent company, to push its own lines, and sales began to slip. As a matter of fact, one district manager told the authors that he was not interested in pushing the firm's own Rexall line, but, inasmuch as he was out to get business, he was going to put the leading advertised lines on the top of his counters and ultimately he would get the profits. It was not long after that Drug, Inc., by buying Sterling Products, Inc., got control of a number of nationally advertised products including Phillips' Milk of Magnesia, Bayer's Aspirin, and others. They found it necessary to do this because they had large factory facilities that were not being employed efficiently and at the same time they were meeting with the resistance of some of the managers of their own 700 retail stores with respect to the items they wanted to feature.

However, this setup did not prove to be practical because the merchandising angles of a specialty manufacturer are entirely different from the merchandising angle of a retail chain drug store like Louis K. Liggett. In 1934, Drug, Inc., was unscrambled and the respective operating companies went back to their original setup and independent control.

During the period 1929–1935 we find a gradual flux of this type taking place. Drug wholesalers had been compelled to take over the operation and control of retail drug stores. They had products of their own to exploit and, owning or controlling the outlets as they did, their products were naturally given preferences. However, this particular phase of wholesalers operating retail drug stores is not as important as it has been, as most retailers have been able to climb out of the financial trouble suffered as a result of the depression.

These changes—manufacturers becoming retailers, manufacturers becoming wholesalers, wholesalers becoming retailers, retailers becoming manufacturers—and now the added restrictions of the Wheeler-Lea Act, of increasing Federal Trade Commission citations, state board of health and city registrations with excessive fees proposed,[12] and finally the present Food, Drug, and Cosmetic Act with its rigorous regulations makes this business a complicated one, which calls for a high order of intelligence to operate successfully. The qualifications now necessary may not always be possessed by those finding themselves in one of the above positions and this may lead to difficulties.

[12] In one case a fee of $25.00 per registration was suggested; even the small fee of 50¢ per registration charged by the State of Maine if adopted by all the states might prove ruinous to manufacturers of large lines.

Advantages of Retail Drug Business. There are still, however, many favorable factors in connection with merchandising through the retail drug field. Of the many types of retail merchants in the United States, the retail druggist has the lowest business mortality. This is due largely to his high investment in location and reasonably staple merchandise and cash business. While low sales at times make operations difficult, usually sudden demands made upon him by windfall business like that during and after the Second World War have managed to keep him going. If you investigate the average drug stores in any neighborhood you will find that once a location has housed a druggist, he or some other druggist is there for a long period of time. This is especially true in smaller communities where population shifts are not so violent as they are in the cities.

The druggist has the largest investment in physical properties of any comparable retailer. Most of his investment is in his fixtures, his soda fountain, and his location. He also gets more cooperation from his wholesaler and manufacturer when conditions are bad. His largest creditor is usually his wholesaler (if his store is free and clear). He can readily mortgage his store in cases of necessity, and often does. He has the possibility—and it very often is quite important in keeping many druggists on their feet, when unusual spells of sickness or epidemics occur—of making enough profits in a short period of time to balance the losses that have accrued from a long period of poor business. He takes no large losses on soiled merchandise or market fluctuations because most of his merchandise retains its value and does not fluctuate in price sufficiently to impair his capital—that is, provided he buys carefully and does not permit himself, because of seemingly attractive merchandise deals, to be overloaded with "stickers" often of "push" or little known merchandise.

Importance of the Individual Outlet to the Manufacturer. The United States Department of Commerce through its Census of Distribution for 1929 disclosed that of the estimated net sales in the United States of $50,000,000,000 at retail, the drug stores did $1,683,834,442, or 3.36 per cent of the total retail business,[13] and 13.71 per cent of the per capita business. The dollar volume varies, however, from year to year as may be seen from the 1935 census, which shows drug store business to have been $1,232,593,000, or 3.7 per cent of the total retail sales of $33,161,276,000,[14] and from Department of Commerce figures for 1945, which give retail drug sales as $2,958,000,000, of which the independents did $2,255,000,000 and the chains $703,000,000, or 24 per cent. In 1945 independent drug store sales increased 4.5 per cent over 1944 and chains increased less than 1 per cent.

[13] United States Summary of Retail Distribution, 1929, p. 14.

[14] Census of Business, 1935, Retail Distribution, Vol. IV, p. 15.

All retail drug sales were up about 5 per cent over 1944 although general retail sales were up 7 per cent.

Although these figures are important, they do not give the true economic value of the retail druggist to manufacturers generally. We have noted previously the many types of merchandise that the retail druggist sells. It is, therefore, very important for manufacturers of many lines to consider this type of retailer.

Relation of Drug Product Advertising to Publishers. Advertising and sales promotion effort directed to the consuming public is so voluminous in the drug field that as soon as anything goes wrong in drug product merchandising, manufacturers curtail their sales promotional efforts, and the advertising and publishing fields immediately feel this curtailment of expenditure materially.

TABLE 8. TOTAL CONSUMER GOODS ADVERTISING EXPENDITURES IN PROPORTION TO SALES*

Kind of Goods	No. of Firms	1935	1934	1933
Proprietary medicines	7	33.78	35.44	37.00
Drugs and toilet articles	14	27.65	28.52	28.43
Beverage	3	15.23	14.28	15.10
Paints and varnishes	7	7.40	5.18	5.87
Drug sundries	4	6.00	5.50	7.00
Auto accessories	4	5.90	10.30	6.15
Petroleum products	5	5.68	5.96	3.78
Sporting goods	5	5.67	6.00	8.00
Confections and ice cream	4	5.35	5.65	
Food and grocery products	26	5.07	4.94	4.24
Beer	3	4.67	6.25	8.50
Clothing accessories	8	4.50	4.16	5.25
House furnishings	8	4.50	4.93	5.20
Household electric equipment	6	4.47	5.09	4.42
Knit goods and hosiery	7	4.20	4.20	3.93
Footwear	9	3.97	4.25	4.00

* Survey on Distribution Costs, Assoc. of Nat. Advertisers.

To give a clear idea of what proportion of sales is spent on advertising in the drug and cosmetic field, Table 8, showing the advertising percentages to total sales of a few consumer goods budgets, is presented as one bit of evidence. Another piece of evidence is shown in a different type of study by the Federal Trade Commission. The Commission arrived at a somewhat similar result for 1940. Out of 91 industries studied the drugs and medicines industry tops the list for advertising expenditures per dollar of sales as shown in Table 9.

Since the total sales of drugs and toiletries, sundries and proprietaries are high in the total of retail sales in the United States and the average per cent expenditures for advertising is more than double that of the nearest consumer goods, we are safe in concluding that there is no industry in the

country, with the possible exception of general retail establishments, that spends as much for advertising as is spent by drug and toiletry manufacturers. This is borne out further by the fact that drug trade advertisers placed the following percentages of the total of advertising placed in the August 1941 issue of each of these periodicals: *True Story,* 63.8; *Woman's*

TABLE 9. ADVERTISING EXPENSE PER DOLLAR OF SALES IN 1940*

Industry	No. of Corporations	Advertising Per Cent
1. Drugs and medicines	20	13.94
3. Malt beverages	41	8.97
5. Men's and boys' clothing	21	3.60
7. Footwear	28	2.00
9. Petroleum refining	40	1.25
10. Auto parts and accessories	64	.94
2. Cigarettes	10	11.30
5. Paint, varnish, and lacquer	40	2.46
4. Fruit and vegetable canning	49	4.49
8. Motor vehicles	23	1.94
6. Refrigerators and air-conditioning equipment	21	2.02
12. Cotton textiles	56	.46
11. Hardware	35	1.06

* Selected from Table I, Report of the Federal Trade Commission on Distribution Methods and Costs, Part V, "Advertising as a Factor in Distribution," pp. 6 and 7.

Home Companion, 42.3; *True Romances,* 62.5; *Liberty,* 54.5; *Ladies Home Journal,* 45.9; New York *Daily News,* 50.6; and so on in many other periodicals.[15] Further details of advertising expenditures by drug and cosmetic producers and the relation these bear to other fields and to the total of such expenditures for periodicals and radio broadcasting may be secured from trade publications like *Drug Trade News* and *Advertising and Selling.*

RECENT DRUG STORE MERCHANDISING TRENDS

Return of Ethical Druggist. Of late there has been an attempt on the part of some druggists to return to ethical drug business. This effort, while more or less successful in the few cases where it has been tried, merely indicates that the average dealer is finding it more difficult than ever to get economic satisfaction from the type of store he is operating. He is using every effort possible to change and improve his economic position, by trying new or old methods, experimenting always to try to get more than a bare living out of his efforts.

Adoption of Chain Store Merchandising by Independents. A recent survey by *Drug Topics* disclosed that many retailers are asking for merchandising cooperation from their wholesalers. They have found it advisable to emulate, as far as they can, the good points of the chain store

[15] *Drug Trade News,* Aug. 1941.

system, and the result has been that chain competition improves the character of retail merchandising and retail drug merchandising in particular. Many clerks graduate out of the chain store into their own shops, with good merchandising ideas and modern methods. All of this enables the retailer to compete more favorably with his larger and stronger competitor.

There is a growing similarity between chains and independent retailing. This is summed up by Dr. C. W. Phelps, Head of the Department of Economics, University of Chattanooga, in the following statement:

> There are no inherent and decisive advantages in the device of centralized ownership and control as contrasted with independent ownership with cooperative group control. A temporary advantage for the chain is seen, however, in the fact that they have been the first to adopt scientific methods.[16]

Here are some of the outstanding trends that Dr. Phelps believes will continue:

> (1) Growth of corporation chains, but at a slower rate than enjoyed during the past decade, emphasis on larger stores; (2) growth of voluntary groups of independents, emphasizing scientific management, more and more cooperative buying and selling less; (3) chain retailing and independent retailing will become strikingly similar in all respects, the chains striving to attain the temporary advantages of the independent and the independents appropriating the temporary advantages of the chains; (4) growth in the use of private brands by both chains and voluntary groups in order to recoup extreme price cuts on nationally advertised articles and for other reasons; (5) attraction of a new generation of well-trained independents into the retail field; (6) marked growth of social viewpoint on the part of corporation chains.[17]

The Future of Drug Merchandising. It would seem that the independent merchant in the drug field still has an opportunity to build up a profitable business provided he becomes as good a merchandiser as he is a pharmacist. Efficiency in the conduct of his store, good merchandise, prices within the range of the pocketbook of his customers, and a personality that attracts will enable him to arrive at success as represented by earning a living better than the American average.

Enough has been said to indicate the importance of the drug store and its owner to many manufacturers and to the advertising and publishing fields. Nevertheless, the path of merchandising drug products is beset with many extraneous factors and conditions that threaten the success of a venture in this field. The dealer is usually cold to new products, or at best lukewarm, because, to him, any product is just another product. The wholesaler is still colder because to him one more or less in 62,000 items is not particularly important. And of competition there appears to be more than enough.

[16] A.N.A. *News Bulletin*, Vol. 15, No. 36, p. 406.
[17] *Ibid.*

Still, with all these difficulties and handicaps, the field is so tremendous and public favor is so fickle that any manufacturer has an opportunity to achieve success if his efforts are properly directed. The proof of this lies in the fact that there have been many notable successes in the drug field in recent years. The proof of it also is the fact that surveys and analyses show that, except in very rare instances, no one particular product or one particular brand has such dominant control of any field that some other brand cannot come along and obtain enough public favor to achieve a success in terms of profits.

These are the factors which make for competition, and also the factors which have made the marketing of drug and toilet products not only interesting but profitable.

Chapter 5

PACKAGING THE PRODUCT

The kind of package used for drug and cosmetic products is very important in aiding in the sale of most of these products. It is important not only to the manufacturer, but also to the wholesaler and retailer because it has considerable influence in securing acceptance of the product and in making repeat-sales easier.

This chapter is concerned with the packaging factors, which need to be viewed from all angles if a package is to be developed that will satisfy the different groups who are concerned in the sale and purchase of drug store goods. The chapter considers the ease and efficiency with which the manufacturer can package his product; the factors that arouse the interest of the consumer, such as size, shape, style, design, color, and materials; the importance of the branding of products and the legal protection of package and name; and the aid packaging gives in selling a product; the problems of changing the package; and the importance of the right kind of shipping containers.

THE PACKAGE AND MANUFACTURING

Packaging is part of the manufacturing process; therefore, the package or container selected for a product should be of a type that can be handled easily in the manufacturer's plant. Packages and containers of peculiar shapes and unusual sizes do not ordinarily lend themselves to manufacturing efficiency. They are not convenient for handling. Peculiar sized packages may increase manufacturing costs sufficiently to reduce profits. The package, especially, if it is a carton, should be designed so as to be adaptable to being filled by automatic machinery. Before any decision is reached as to the adoption of a package, the production manager and the equipment manufacturer should be consulted as to its practicability.

The shipping container in which the individual packages are placed should be of such a type that it can be handled easily as it goes through the plant and should be so constructed that it can be stacked effectively, thus cutting down the costs of warehouse space and handling.

The government too has something to say about the packaging of products, for there are regulations about the character of the printing on the label that goes on the package, and the literature that goes into the package. This is treated in detail below (see Chapter 21).

APPEARANCE OF PACKAGE

Although the consumer is the last person to whom the package goes, the consumer is the first person with whom the manufacturer should be con-

cerned in the make-up of his package. The package must be considered from many angles to arouse the interest of the consumer.

Size and Shape of the Package. The size of the package is the first question. How large a quantity does the consumer want to buy at one time and what price does he think represents the fair value of the packaged product? To some extent this is determined by the custom of the trade and what is done by competitors. If most competitors have set the sale price of a pound package of a product at $1.00 it is reasonable to assume that this is the result of experience with the consumer and that very little could be gained by offering more than a pound for the sale price, unless research discloses that all the competitors are wrong and that sales are dependent upon the quantity offered. To some, larger quantity for the same price will appeal; to others, this will be of little moment. Each condition will be different for different products. The important thing is to furnish the usual quantity sold by most competitors, so that competition of price can be eliminated.

Shape. The shape of the package needs consideration. Consumers want packages that do not tip over easily; that can be handled readily; that cannot be damaged; and that are, at the same time, the proper containers for the product sold. But these requirements do not preclude the adoption of varied styles in shapes. In the past, it was tradition rather than other considerations that determined the style of the package. Recently, the condition was the reverse. Every package that was designed was done so with a view to appealing to the public as well as to furnishing utility. Consequently styles that have come into use over the last decade have a general utility value, exclusive of their use as a container. Because of war restrictions, many products that were packaged in tubes and tin had to change over to paper and glass or plastics. Some of these changes will be permanent. For other products the former containers are being used again as they become available.

It is quite evident that economy in packing ought to play some part in determining the shape and size of the container. This consideration is overshadowed somewhat by the need for convenience in home medicine chests. In the attempt to conform to these requirements, there has been in recent years a radical change in the character of the bottles used, for instance, for mineral oils, cough mixtures, and other liquids. The standard size used to be a 12- to 16-ounce bottle for both of these products. It was found that the space between the shelves in the average medicine chest, particularly in city apartments, had become too narrow to permit bottles or packages of those sizes to be placed there. A 6-ounce size was found to be more practical, and so it was selected and accepted by the consumer and soon became more popular than the larger though more economical sizes. It

is, thus, necessary that every manufacturer consider carefully the size and the shape of his package and determine whether the type he proposes to use will aid in selling the product. At the same time he can note if it conforms to Food and Drug Administration rules and the Federal Trade Commission understanding of deceptive packages—for example, long-neck bottles in cardboard cartons are considered deceptive and are definitely taboo and should not be offered to consumers.

Effect of Package Style and Design. The style or design of a package may have considerable effect on its sale. That is why manufacturers are giving so much thought and consideration to this subject.

Style. As a prospective manufacturer, you must remember that the first impression the public gets of your product is from the appearance of your package on the dealer's shelf and that there it acts in the capacity of a personal salesman. If its appearance compares favorably with that of competitors' packages, the first impression may be a pleasing one. Today, manufacturers of long-established products realize that, despite the many years of effort in building up a product and in creating a consumer demand for that product, they often suffer a setback in sales because of an old-fashioned and obsolete package. That is why so many old products are now found in new packages. There has been a change, too, in labeling. It has been a case of putting old wine in new bottles. In former years, the vogue appeared to be largely in favor of many words, long statements, and intricate trademarks. Today this part of the job is taken care of by circulars and the package itself is as simple in appearance as possible. This simplicity brings to the consumer an impression of neatness, makes for legibility of the trademark, and creates confidence in the product. Toiletries particularly have found simplicity of style in package design very important, but manufacturers' expenditures to secure this effect seem to be out of all proportion to the benefits derived. The package should first have an attractive general design; second, a legible, understandable trademark; third, pictorial illustration, if any, descriptive of the product; fourth, careful description of the purpose of the product, where purpose is necessary; and fifth, direction of use in an inconspicuous but clearly legible place.

Design. Some manufacturers go to the extreme of modernism as a basic design. This practice, however, is dangerous, because modernistic packages are likely to become obsolete in a short time, and the disadvantages of revision must again be encountered. It is a recognized fact that appeal to the eye (beauty and harmony) in a package is usually much more effective than any appeal to the mind.

Most well-designed packages present the same general appearance of the front and back and of the opposite sides. Package identity of this type, when maintained, eliminates confusion and enables the manufacturer to

retain a family uniformity where such is desired. Simplicity in typography is more important than the use of interlocking elaborate scrolls, designs, and other variations of type. Packages should be so designed that they are easily and clearly visible on the dealer's shelf, and at the same time have a sales value. By this we mean that the package, in comparison with competitors, should stand out so that, even if the trademark is not readable, the package can be recognized because of its style, contour, and general color scheme.

Color Schemes in Packaging. The color of the package is an important factor in the sale of the product that is in the package. Too often color schemes are determined by personal preferences of the individual manufacturers. This is not the way the best color combinations are usually secured. They should be selected by research among consumers and with the aid of psychologist, artist, and expert in marketing, and only after consideration has been given to the factor of content, which itself affects the color of the package. For example, oily substances require glass containers, in which case the product itself may furnish all the color necessary; creams require aluminum and commercial tin tubes, not lead, and for some creams glass or porcelain jars may be needed, which again may settle the question of color. Light may affect the potency of some drugs and this may be resolved by using blue or amber-colored glass.

Apart from these intrinsic factors color may play an important part. Psychologists have made many tests of the effect of different colors and combinations of them on the consumer in making purchases. Packages that are intended to go into the boudoir should not be gaudy; the colors used should follow the prevailing color fashions. They should be delicate pastels to suggest refinement. On the other hand those packages that are intended to stand in other places, such as the kitchen or bathroom, should not be in somber colors but in warm colors like yellows, orange, or reds.

Color is an important consideration, but the proper colors can be selected if care is taken and efforts are made to arrive at color combinations by careful planning and research.

Materials of Packages. There are several kinds of material used for packaging in the drug field, some because of habit and custom, others for reasons of economy and utility, and a few as a result of arbitrary perference. In most cases, packages do not vary in the material used for the same style of product. The most common types of containers used in the drug field are jars made of glass, tubes of metal, and paper cartons. Recently, a new package material manufactured by Eastman Kodak Company, American Can Company, and E. I. Du Pont de Nemours & Co. from a gelatinous substance was offered as a substitute for the metal used in making

tubes. This material has not as yet been generally accepted. It costs more than the metal but the lightness in weight means lowered freight costs, thus counterbalancing the higher price of the material.

In the selection of the package material it is important to be sure that it is of a nature that will help preserve the product. Some drug products are sold in brown or blue glass containers to avoid deteriorating effects of the light on the contents. In other cases, materials cannot be put in metal containers as their contents may cause corrosion at the cap or have some other unsightly effect on the package. Some packages consist of an inside shell of wax and an outer shell of glass, tin, or porcelain, and finally a paper carton.

Cellophane has now been added to the list of packing materials. Products formerly placed in glass containers and then cartoned are now placed in glass containers and wrapped in Cellophane. This has resulted in increased attractiveness of the package, as the full effect of attractive shapes or colors of the original containers can be utilized. Also it may lower the costs of packaging.

Some products sell more easily in one kind of container than another. Creams were sold first in tin cans, then in jars, and later in tubes. The consumer seems to have preferred the jar, which is the type of container now generally used for creams. Tubes have proved to be more satisfactory for semisolids and glass bottles for liquids. Tubular paper canisters are usually used for dry substances such as salts and powders, while other dry substances like face powders, rouges, and other cosmetics are packed in fancy paper and metal containers. Any form of container can be made to appear sufficiently attractive to increase its selling value if study is made of consumer reaction to such appeals. Practically every form of container is now being used by some one in an acceptable form.

Close attention should be given to even so small a detail as the cap of the container. In the last five years a noteworthy improvement in caps has taken place. For example the bakelite cap has been used in place of the old cork caps and the metal caps that followed the latter. It has been found that the bakelite type of cap has a decorative value and therefore, even though slightly more expensive than the old type, it makes a greater sales appeal. Even the plain aluminum caps have been made decorative, and brass caps are now enameled in colors to match package labels. These changes have improved materially the appearance of packages and they are in line with the trend of art in industry, and color appeal in marketing.

Labels, too, have been given considerable attention. The old labels with simple printing have given away to varied colored, lithographed, and, in some cases, embossed metal labels.

BRANDING THE PRODUCT

The relationship to the package of the name and any identifying mark is important, because it is ease of recall that helps the consumer to remember and to select the product. All the elements of the package should be coordinated not only to secure harmony in appearance, but also to aid in fixing in the minds of the public both name and package.

As far as possible, words that may become generic terms should be avoided in trademarks. When that happens the manufacturer has to emphasize not milk of magnesia, but Phillips' Milk of Magnesia or Bayer's Aspirin to differentiate them from the many other products of the same kind on the market. The name selected for the product to be placed on the package should be one that can be protected under current Trade-Mark Laws and recent amendments. Search should be made in the United States Patent Office at Washington, D. C., to determine whether a proposed name is acceptable, and the name chosen should be registered there. In toilet goods, reference should be made to the records of unregistered trademarks so as to avoid confusion and unintentional copying. The fact that a name or trademark is not registered does not give everyone the right to use it. Other studies should be made to discover whether or not the brand name selected readily lends itself to imitation and infringement. If it does it may lead to legal difficulties and sales resistance.

No trademark should be selected that pictorially indicates current styles, since these are usually temporary. Styles and figures may be of a defined period, like the Baker's Chocolate Girl, but should never be ultramodern. Modern figures go out of style too quickly and so become obsolete. Figures typifying remote periods, however, do not change with the passage of time. Complicated trademarks usually do not appeal and are difficult of reproduction. Trademarks that appeal to the sense of humor may not give an impression of permanence, integrity, and solidity. Many trademarks are coined or arbitrary words, not even suggestive, yet they are easily remembered, effective in use, and readily protected. Care should be taken that trademarks do not embody geographical names, as they cannot usually be registered or defended against infringement. In addition, geographical designations may militate against the sale of a product, because of local prejudices. Grotesque combinations are usually of little value because they frequently are regarded as caricatures and do not inspire confidence among consumers. Most trademarks that are now valuable have reached their position of prominence for three reasons: (1) because of following certain rules in constructing them, (2) because of the money and effort spent in making them known to consumers, and (3) because the products have given consumers satisfaction.

The selection of the proper trademark is one of the most important ele-

ments in the successful marketing of products that depend for success on consumer recall. A trademark that receives attention from the consumer, that is easily remembered in association with the product, and, at the same time, can be protected under the federal Trade-Mark Act and common law governing property rights is one that will prove satisfactory to most manufacturers. Trademarks represent property rights and as such are protected by common law as well as by statutory law. That is why, when a trademark registration has expired and through neglect has not been renewed, the owner of a mark has equity rights under common law even though he has lost them under the Trade-Mark Act. Many firms do not realize that trademark registrations expire and must be renewed. In foreign countries failure to renew becomes serious as frequently marks are stolen by failure to renew in time.

LEGAL PROTECTION FOR PACKAGE AND NAME

In developing the package and preparing the labels, literature, and carton materials, an effort should be made to secure the greatest amount of legal protection. An innovation in package construction, a new way of marking the package, a change in the material used in the container, or a new and useful improvement may be patented in the Patent Office, Washington, D. C. Such a patent runs for 17 years and is not renewable. The label or printed material may be copyrighted also in the Patent Office for 28 years and is renewable once. The label or printing is copyrighted as a whole and it must be descriptive in order to be copyrighted. If the trademark is part of the label the copyrighting is not equivalent to registration of the trademark. The trademark must be registered separately as well as copyrighted with the label.

Design copyrights should be obtained for all, particularly the unusual, designs and packages. When this is done, the manufacturer secures for himself as much legal protection as is possible. Registering a trademark, copyrighting a label or print, and patenting a package in the federal offices provide a record for consultation by others who desire to avoid infringement. Such a record furnishes prima facie evidence of use and ownership. Federal courts have jurisdiction in the event of infringement, and action may be taken to collect damages for losses sustained. There are other advantages such as shutting out foreign goods that may attempt to infringe, and domestic action permits of registration, copyrighting, or patenting in various foreign countries. Thus by taking advantage of all possible legal protection one is enabled to avoid the losses incident to the efforts of imitators and substitutors to infringe on successful trademarks.[1]

[1] The Lanham Trade-Mark bill signed by President Truman on July 5, 1946, becomes law after June, 1947. Every business man concerned about trademarks should know the principal provisions of this Act. It strengthens trade-mark rights and more severely punishes willful infringement.

THE PACKAGE AND SALES VOLUME

Packages of Convenient Dealer Units. After the general type of the package has been determined as to size, shape and appearance, the selling unit to be offered by the sales department must be considered. A unit should be devised that is sufficiently large to warrant profits to the retailer for his efforts and, at the same time, small enough so as not to result in dealer overstocking. Consequently, whether the dealer package should contain 6, 12, 24, or more units depends largely on the price to the consumer and the market in which the product is sold. The dealer's unit should be divided with the wholesaler in mind. Wholesalers, as has been noted, are not keen on new products and as far as possible their packaging wishes should be considered in asking them to stock a new item. If the unit is convenient to handle, is not cumbersome, and is not easily destroyed through handling, some of the natural objections to new products may be overcome.

Display Value of Package Units Sold. The dealer is generally disinclined to arrange special displays of particular products, because of lack of space, lack of time, or general inefficiency. It behooves the manufacturer to relieve him of these troubles. Therefore, the unit package should be of such size and nature that it becomes a display automatically. Then it will have a better chance of being placed on the counter of the dealer, and thus obtain its proper place in the dealer's store in order to attract the attention and interest of the public. The spread of open display has been an important factor in improving package design. There is every indication that open display will continue as an important factor in retailing; consequently, one can expect that design will continue to play an important part in the sale of many products.

Size of Packages and Sales Volume. The size, and price, of the package and sales volume are closely related. Products that have high repeat value should be offered in smaller units than products that have relatively little repeat sale. Since a manufacturer's efforts, when directed to the sale of any product, should yield him a sufficiently large sales volume on a particular product to make profits possible, low-priced products should be offered on the market in large units with prices to correspond. Toiletries have a wide price range guided entirely by the manufacturer's wishes and his own judgment. Generally, the price line of drug packages may be gauged as follows: nonsecret medicinals and simple remedies are sold in sizes at 25 to 50¢ and $1.00 maximum; proprietaries and patent medicines are generally sold in 12- to 16-ounce sizes and for between $1.00 to $1.50. Druggists have demanded in recent years that the 10¢ sizes sold in variety stores be in proportion to large sizes sold in drug stores. This condition

was changed under O.P.A. regulations, which required that set quantities be given for quantities used in various sizes of the same product. Maximum price regulation 393 governed this situation. With the elimination of O.P.A. controls sizes will unquestionably be offered in proper proportion to the retail selling price.

Very seldom is the quantity offered in the package important in the initial sale of any product, although quantity offered may have a considerable effect on the repeat sales. In other words, it does not always pay the manufacturer to give too much of his product for the price asked. One manufacturer who was offering an 8-ounce package and who did not do a satisfactory sales volume because a package of this size lasted too long found that he increased his dollar sales volume by gradually reducing the quantity. Over a period of three years he got down to a 5-ounce package selling at the same price. Since the product was of the type that was estimated to have a large number of new users yearly and at the same time was consumed rapidly, the average life of the package in the hands of the consumer was reduced to two to three weeks. By reducing its life the manufacturer was able to increase the consumption. This accelerated the speed of the repeat need without apparently causing any consumer ill will. What the product does for the purchaser is more important than one or two additional applications in a package.

Ordinarily luxury articles do not have to be priced with the same degree of closeness as do articles in everyday use. Luxury products are purchased either by wealthy people regularly or by the people of limited incomes on impulse and therefore the fixing of the retail price can be determined by the manufacturer on the basis of what the traffic will bear, rather than by actual cost of the product. With luxury products or packages, vanity plays a large part in suggesting what the traffic will bear, so that we have vanity-pricing as a policy. While during the years of the depression luxury articles lost in sales, the trend at present is the other way and higher-priced lines are easy to sell. How long this will continue is unpredictable but the habit of buying higher-priced products, especially cosmetics, will probably be with us for some time.

Utility of Container as a Sales Influence. There has been a tendency, particularly in toilet preparations, to market merchandise in containers that have a utility value to the purchaser after the product has been consumed. This method of packaging, though it may be of sales value in the first or second sale to the consumer, usually loses its effect on subsequent sales. The consumer, having one or two such containers, begins to feel that she is paying for the container, and sales resistance often develops. To illustrate, one concern offered bath salts in earthenware cookie jars, but how many cookie jars can, say, a single woman use? Again Yardley's

shaving bowl is used for pins, collar buttons, or a lady's powder puff; but eventually even these uses are exhausted. Some years ago, the Dr. West's Tooth Brush found that they were not being helped by marketing tooth brushes in a glass container. When the tooth brush was worn out, the glass container still remained and the public began to feel that they were wasting money on buying the product because they had to pay for the container as well as the brush, and sales declined. They soon found it desirable to discontinue the glass containers. Lately, tooth brushes are being offered in plastic tubes, but the tube is added only for sanitary reasons—not for utility purposes—and probably will add to the sales value of the product more than enough to cover the additional cost of the plastic.

Influence of Package Cost on Sales. Sometimes a manufacturer spends too much for his packages, and so, in order to make a profit, puts his product into an uneconomic price field. By doing this, his elaborately designed package is actually hindering sales, rather than helping them. It is well known that packages sometimes cost more than their contents and at times this gives rise to a question in the consumer's mind as to whether the more expensive package is worth the difference when he compares the price with the general price range of competitors.

Sometimes, if the package is too elaborate for the price range, particularly in the toilet goods field, some consumers may lose confidence in the quality of the merchandise and hesitate to buy it. It is therefore quite essential for the manufacturer to take into consideration the advisability of not investing too much in the package itself, because this may compel him to place too high a resale price on his product or cost the confidence of the consumers, which may lower his sales volume. Very often, it is better to spend less on the container, especially if it is destroyed after use, and increase the expenditures for other types of advertising.

The leading cold cream manufacturer, whose expenditures for advertising are large, uses a very simple package. For years, competitors with more elaborate packages have tried to divert sales, but with very little success. Apparently, the public was more interested in the quality of the product than the style of the package and indicated its preferences accordingly. Simplicity in design does not necessarily mean that the packages cannot be made attractive; the aim should be to provide simple, attractive, and inexpensive containers.

The Appearance of Value in Relation to Sales. In some cases the price seems, to the consumer, to be out of proportion to the value of the product. It is therefore necessary to handle the packaging of the product to develop in the mind of the consumer deeper appreciation of the product. This problem naturally is one of emphasizing the high utility of the product, its unusual effectiveness, and its actual economy, if such is the case. By way

of illustration, one antiseptic manufacturer claims that his product can be used diluted to obtain results as against other products that are used full strength. In that way he tries to bring home to consumers the fact that actually his package is more economical, although smaller in size.

Miniature Packages (10¢ sizes). Some products, especially those that are purchased frequently, have been successfully introduced to the public in 10¢ packages through the efforts of the 5-and-10-cent to $1.00 variety stores. Within the last ten years, the sale of 10¢ sizes has increased tremendously, though 10¢ sizes as a rule are not as economical for the consumer as are the larger units. One reason for the success of the 10¢ package is that people with medium and low incomes are not inclined to spend a dollar outright for one large package. They want the popular advertised products without being compelled to make the large investment for the original sized package. The original purpose for the introduction of the 10¢ sizes was to have the size act as a sample and prepare the public for the larger size units in the regular channels. Actually, however, in many cases, it did not work out that way. The 10¢ size developed a market of its own.

While in the early years of 10¢ package toiletries, most buyers were floaters, that is, with purchasing habits rarely set, the 10¢ field today is a powerful automatic and speedy means of introducing new products, obtaining wide distribution, and testing advertising campaigns.

The 10¢ buying habit mentioned above makes it easy for the manufacturer who gets his product on the counters to secure many trial users immediately. The change in policies of the variety chains, whereby they are now offering higher-priced units of the same products, can create sales for larger sizes quickly, and the practice of open display, which is the background of the 10¢ market, gives the manufacturer prominent display, immediate visibility and close tie-up between advertising and dealer display at minimum cost.

Furthermore, 10¢ sizes have now developed a distinct market of their own. They include travelers, children, and others who may have individual small packages for their own use. This is particularly true of cosmetics, as many of high school age cannot afford to buy the regular sizes that they see on the dressing tables of their mothers and sisters. They have become regular purchasers of the 10¢ sizes. Ten-cent sizes represent a very important part of the volume of many manufacturers and in some cases have gradually displaced the larger sizes in volume of sales.

Miner's first introduced their Patti-Pac Cake Make-up in a 10¢ size through the 5-and-10-cent store. Within the year, they offered the 39¢ size in the same outlets, and within 6 months they were selling more 39¢ sizes than 10¢, in the same outlets. When the 10¢ had to be discontinued temporarily because of war restrictions, dollar volume did not drop, as the

39¢ size took up the entire slack caused by the discontinuance of the 10¢ size.

The production of small units usually complicates the manufacturer's problems of marketing and not every manufacturer can make money out of the 10¢ sizes. Profit depends entirely upon manufacturing setup, the efficiency of the plant in handling small units, the sales ability of coverage, and the appeal of the product itself. This causes some to question the desirability of entering the 10¢ field. One must know whether the 10¢ units will detract from the sale of larger units, thus acting as a detriment to sales volume, and whether it affords the necessary profit margin for exploitation of the market. When entry into this market results in additional business, when it acts as a sales stimulant, and when it serves to introduce a product to a market, then it is advisable.

It might be pointed out here that this can be an important market for some manufacturers. The latest figures disclose that 10% of the dollar volume of toilet preparation business is done in 10¢ sizes and the field is growing. The druggist for a long time was against 10¢ sizes, but now many more druggists are interested because of the successful exploitation of this size by the variety stores. However, the proportion of druggists who are successful 10¢ merchandisers is still small in potential sales volume, as compared with the variety group, which is growing steadily.

Changing Your Package. There are times when the question arises as to whether a package should be changed. This problem may be serious from many angles: consumer reaction, wholesaler reaction, and dealer problems.

First, if the change of package or label is not very radical and a transition can be accomplished so that the original package has some relation to the new one, then this factor may be overcome by merely indicating the change with some comment like "new package adopted Dec. 31, 1946." Sometimes, package changes are made before a product has attained wide distribution. In the summer of 1938 one firm offered Deodorant Pads in flat glass containers. It was found that there was a preference for lightweight metal containers that could be carried in a purse. The change was made quickly—before consumer acquaintance with the original container had become too great. This, however, did not prove to be a smart idea. After the product was on the market a few months, it was found that the saturated liquid attacked the metal container causing rust, stuck tops, and other troubles. In 1939, the glass container was restored, and was found to eliminate all problems. Light weight was less important than a product that did not dry out. It is well to bear in mind the warnings on changing package as expressed by Dan B. Hassinger at a recent convention of toilet goods manufacturers.

Unless you have a definite reason for changing a package, leave it alone. . . .

To test consumer preference, ask six peoples' preference in 25 different localities; the result will hold good for the United States. . . .

Consult buyers, retailers and wholesalers, before you decide on a new package. You will save money by listening to them. . . .

Before deciding on a new package, get every package on the market that is similar to it. Don't make the mistake of finding out afterwards that your package is like another. . . .

Consider where the consumer is going to use your product; whether in the bathroom, the boudoir, the kitchen, or the garage; give it re-use value if possible. . . .

Each package must have one appeal that stands out. Don't try to put too many competitive appeals in one package. . . .

The requirements of automatic packaging machinery must be taken into consideration when designing a package; the design must not interfere with efficient bottling; capping, labeling, shipping, etc. . . .

The display value of a package can be seen by holding it at a distance; if you can't help seeing what the package is like, it has display value. . . .

If a package is designed, no matter how artistically, in such a way that nothing about it makes a salient impression, it lacks 'describability.' You would not know how to ask for it in a store. . . .

There is another big problem involved in changing a package, which is very frequently overlooked, and that is exchanging goods on hand. After every change of package design, back will come a huge number of old packages for exchange and replacement, not only from wholesalers but from retailers as well.

It is amazing how many old, ancient, and almost prehistoric packages of products will suddenly appear when a radical package change is broadcast. Therefore, unless there is little possibility of these returns occurring, the thought of change should be let alone—unless there are sound economic reasons for the change.

SHIPPING PACKAGE

After the product package has been designed to meet the requirements of the consumer, the wholesaler, and the dealer, there still remains for consideration the type of shipping package in which to forward the product to its ultimate destination. The factors that require analysis in this connection are: (1) protection of the product, (2) cost of the container, and (3) transportation charges. That protection is necessary is obvious. Goods should reach their destination in good condition. Damaged products give rise to claims, cause annoyance to dealers, may destroy good will, and add to the overhead expenses of the manufacturer. Cost of the container may be considered first from the point of view of materials to be used, their weight, their size, then from the point of view of transportation costs as to minimum handling costs, ease of stacking, reduction of weight, lowest territorial freight rates and correct units for order filling.

Corrugated containers have replaced, to a large degree, the wooden cases that were formerly used in the shipment of most drug products. The standards that have been set by the Interstate Commerce Commission have been met by corrugated-box manufacturers, and today there are very few products sold in drug stores that are not shipped out in this low-cost container. This practice has reduced transportation costs, as well as the cost of the outside containers themselves. It also has been of material assistance in eliminating a number of incidental annoyances in shipping. The development of the corrugated container gave impetus to the movement to purchase in smaller quantities and to ship by parcel post. Now with dealers buying in smaller units and jobbers recommending buying only in quantities that are easily sold, wholesalers have been requesting package units of not more than one dozen to the container. This unit also makes easier the handling of parcel post shipments.

The corrugated containers also permit of ease of identification. In a coordinated sales promotion program all shipping containers usually will be used to advertise the manufacturer and the product contained therein. The trade-mark, brand-name and any other identifying mark should be used as generously as possible here and elsewhere.

Chapter 6

DEALER TYPES AND THE PROBLEMS OF SELLING TO THEM

This chapter tells the reader about the various types of outlets that sell drug and cosmetic products to the ultimate consumer. These types are discussed from the viewpoint of their importance in terms of sales volume and location. They are also viewed from the point of their importance in terms of type of product they specialize in. There are presented also some facts as to the dominance of chains as compared with independents—chain stores dominate in some areas and the independents in others. Each presents a different problem in selling. Which to approach, where, when, and how are all indicated. When and how to use the wholesaler is also indicated. The urban market is again different from the rural or village market. The problem of reaching the dealers in each of these markets is different; their problems, competition, and buying habits are different. What to do about them is suggested.

MARKETS AND PEOPLE

Generally people are markets and where you find people you will find stores. But it is desirable to know where different types of stores are located so that plans for reaching them at lowest cost may be worked out. Fortunately for producers and sellers the federal government has taken several censuses of trade. On the basis of the 1935 census, maps have been constructed to show the location of stores. These maps are to be found in *Patterns of Stores, Sales, and Population in the United States.*[1] Some of the maps show the location of population by counties for 1930, the retail sales levels by counties for 1935, and retail sales per capita for 1935. Comparison of these with some of the other maps will show the value of the different trading areas as shown therein. Further exploration of markets can be made through the maps that indicate the number of retail stores in each area and the number of the various types of retail stores in which our marketers are particularly interested. If the maps of drug stores and general merchandise stores are superimposed on each other it will be seen that these stores are highly concentrated in the same areas, namely, the areas of highly concentrated population. However, if the map of drug stores is superimposed on the map of country general stores it will be seen that the patterns are quite different.

[1] United States Department of Commerce, Washington, D. C., 1938. Although the figures have changed slightly since this survey was made the general patterns have not.

A study of the Department of Commerce maps of the various stores and of the National Wholesale Druggists' Association and chain store maps [2] in conjunction with the population and sales maps suggested above will indicate what areas may be approached on a direct-to-retailer basis and the number of stores of each type that may be so reached. Such study will indicate also what areas should be covered altogether through wholesalers, and the number of stores so available. Finally the study will help to suggest what sales quotas can reasonably be worked out for each area.

Further help in this direction may be secured from a series of maps developed for *Printers' Ink Monthly* in connection with their market exploration studies. An important characteristic of their maps is that they are drawn to a scale showing the relative importance of various cities insofar as drug stores are concerned. In addition they show the per capita business in these stores by the various areas. Furthermore the maps indicate the division of the population between urban and rural in the different states. Full use of these maps with the data given will enable you to determine your market and consequently to lay your plans with hope of better than average accomplishment. The important fact to remember is to analyze the markets and try to reach only those that can be economically sold by your sales force.

Urban vs. Rural Markets. Research studies show that drug and cosmetic sales have developed volume among several types of dealers. Attention has previously been called to the difference between rural and urban markets. This difference has recently become more pronounced, even though people living in urban and rural areas have pretty much the same tastes and desires respecting drug store products. The difference between them as markets lies in the difficulty and, therefore, the cost of reaching them. A manufacturer's budget indicates how extensively he can operate and consequently the extent to which he can reach all desirable communities.

Nearly all new manufacturing enterprises find it advisable to let the wholesaler, as far as his cooperation can be obtained, cover the rural districts. As a matter of fact, it is very costly for new enterprise to attempt to go direct to retailers in other than the densely populated areas, which are the large marketing centers of the country. By having wholesalers cover sparsely settled areas sales expenses for the individual concern are held down to a minimum, and the sales and advertising efforts can be coordinated and timed in such a manner as to make them most effective in the places that are easy to reach.

Sales Density. From a survey, the report of which appeared in the *Tower News,* we learn that there are some 16,589 American communities

[2] See p. 100, and the map which can be obtained from the N.W.D.A.

in which cosmetics are on sale. Of this number there are 1204 cities, in which most of the trading is done. These have been tested and are a good market for cosmetics. Table 10 shows the importance of some of our metropolises as markets for drugs and cosmetics.

TABLE 10. 20 LARGEST CITIES ARRANGED BY POPULATION AND RETAIL SALES OF 1943 *

	Rank By Pop.	Population Add 000	Retail Sales** Add 000	Drug Store Sales Add 000	Per Capita Retail Sales	Per Capita Drug Store Sales
New York	1	6,814.1	$3,192,594	$126,236	$470.	$18.50
Chicago	2	4,037.2	1,514,829	119,995	375.	30.00
Los Angeles	3	3,175.4	782,842	86,368	246.	27.00
Detroit	4	2,206.1	665,565	78,636	301.	35.60
Philadelphia	5	1,968.7	766,622	50,084	390.	25.40
Pittsburgh	6	1,337.1	337,312	38,746	252.	29.00
Cleveland	7	1,247.2	420,426	36,449	337.	29.00
Baltimore	8	1,142.8	380,103	36,595	332.	32.00
St. Louis	9	1,139.8	353,860	29,005	310.	25.40
Boston	10	817.4	490,396	27,562	600.	33.70
Buffalo	11	804.4	250,311	14,251	310.	17.70
Washington, D. C.	12	777.5	402,768	52,673	520.	68.00
Milwaukee	13	768.5	288,244	19,317	375.	25.00
San Francisco	14	694.9	383,554	22,954	551.	33.00
Cincinnati	15	658.7	230,446	19,323	350.	29.00
Oakland, Cal.	16	630.8	180,865	21,633	286.	34.00
Houston	17	615.2	193,965	15,755	315.	25.60
Seattle	18	602.7	208,537	20,500	345.	36.00
Minneapolis	19	560.2	269,391	18,068	481.	32.00
New Orleans	20	531.0	157,062	16,310	300.	30.75

* Compiled from *The 36 Primary Areas of Wholesale Influence in the Drug Field*, National Wholesale Druggists' Association, New York, 1944. Because of the use of counties for basic data the figures listed above are for counties, as Cook County for Chicago, Wayne County for Detroit, St. Louis County for St. Louis, Hamilton for Cincinnati, and so on.

** These are for 1940 and taken from Census of Business, 1940.

In urban districts, there are many easily accessible marketing areas of varying sizes that may be selected for testing a marketing plan, with the assurance that any well-planned campaign found practicable and profitable by these tests will prove itself in many other places.

Total retail sales for the United States in 1943 were estimated at $63,818,000,000 and for drug stores at $2,746,000,000.[3] Using the 1943 population figure of 132,360,300[4] we get per capita retail sales of about $482 and retail drug sales of $20.

The drug store sales do not cover all the retail purchases of drugs and cosmetics. Many products that, shall we say, ought to be as exclusive with drug stores as prescriptions are sold by other outlets—grocery stores,

[3] *Survey of Current Business*, Oct. 1944, p. 10. Estimates are subject to change. In *War-Time Trends in the Drug Store Market* the Department of Commerce announced the results of another estimate based on a study by them in conjunction with A. C. Nielsen Co. The estimate for 1943 was placed at $2,588,000,000, about 5½ per cent less than the previous estimate. The N.W.D.A. estimates drug store sales for 1943 at $2,715,897,000.

[4] Office of Price Administration, *Civilian Population*, Dec. 1, 1943.

beauty and barber shops, and even newsstands as well as department stores and mail-order houses. Vigorous action by drug stores might reclaim some of that business. Chain drug stores would seem to have shown how it can be done.

The table ranks the 20 largest cities not only for total retail sales but also for total drug store sales and per capita drug store sales. It suggests the advisability of some such analysis for every market one plans to enter. The best markets usually are those where per capita retail sales are greatest. They are best not only because of large sales volume, but because higher-priced merchandise may be purchased, unit sales may be greater, and profits larger. Such an analysis is revealing. Washington, D. C., with a population of less than 12 per cent of that of New York City does over 41 per cent as much drug store business as New York— the per capita expenditure for New York being only $18.50, whereas for Washington it is $68.00. Given people with the incomes and social conditions of Washington phenomenal sales can be made. Table 10 can be studied for other valuable suggestions. The per capita drug store sales vary considerably. Are such sales low in some cities because of social conditions that reduce the use of cosmetic products particularly, or because of low incomes, or because other stores such as variety chains and department stores secure a large share of the drug and cosmetic business?

Other studies suggest that drug store business is a neighborhood business and rarely draws trade from a wide area. True, some of the department stores and downtown chain stores, through price appeal, may get more than local trade, but the bulk comes from close at hand. This would suggest for local drug stores the need of neighborhood sales promotion programs—the need to work their immediate areas intensively.[5] It may be the job of the manufacturer to show them how to do this. The Eli Lilly Company with its book *The Modern Apothecary* is one example of how to do this, while the Nyal Division of Sterling Products, Inc., with its plan of modernization is another example. Still other schemes can be developed. It should be understood, however, that not all of the local situations are similar from the dealer standpoint, so that in some cases changes of approach to a market may have to be made. A variety of schemes for this purpose should, therefore, be the stock in trade of a manufacturer.[6]

The wholesalers, who cover both the rural and urban markets, are located in the larger cities as is indicated by the following facts from the 1939 Census of Business, combined in Table 11. These figures show that of the $55,265,640,000 worth of wholesale trade reported for the United States in 1939 over 60 per cent was accounted for by 26 trade centers. The extent

[5] See Louis Bader's study in *Journal of Marketing,* July 1939.

[6] See Louis Bader's study of Sales Promotion in *Marketing Handbook,* Ronald Press Co. (New York, 1947).

to which wholesale trade is concentrated in populous centers may be seen from the following facts: 52.4 per cent is done in cities of 100,000 to 500,000; 5.2 per cent in cities of 50,000 to 100,000; 4.3 per cent in cities of 20,000 to 50,000; and in the cities of under 20,000 population and rural areas the remainder, $8,088,337,000, or 15.3 per cent, of the wholesale business is located.

The wholesale business in drugs is somewhat similarly concentrated. The total sales for 1939 were divided by type as follows: Full-service and limited-function wholesalers, $520,811,000; manufacturers' sales branches

TABLE 11. SALES OF 26 SELECTED WHOLESALE TRADE CENTERS *
(add 000)

Cities	Wholesale Trade	Wholesale Drug Trade	Manufacturers' Sales Branches with Stocks
New York	$12,954,252	$87,098	$82,095
Chicago	4,080,415	56,529	—
Boston	1,634,784	8,501	8,644
Philadelphia	1,622,100	17,113	2,570
San Francisco	1,377,614	12,946	11,968
Detroit	1,304,451	8,898	—
Los Angeles	1,285,265	19,650	4,626
St. Louis	1,164,102	10,223	19,897
Minneapolis and St. Paul	941,300	1,514	1,564
Cleveland	946,653	4,663	—
Pittsburgh	832,069	8,503	—
Kansas City	762,069	6,808	6,183
Cincinnati	647,187	6,188	—
Baltimore	578,628	6,106	—
New Orleans	437,639	5,669	2,805
Dallas	475,454	5,348	4,200
Atlanta	465,115	5,357	5,925
Omaha	390,754	2,186	—
Buffalo	430,270	6,685	—
Milwaukee	412,366	5,212	—
Houston	457,911	4,409	—
Seattle	451,292	4,472	2,478
Newark	397,832	8,420	—
Indianapolis	374,483	7,574	—
Washington	347,772	3,307	—
Denver	340,989	5,314	1,003

* Adapted from Census of Business, 1939; Wholesale Distribution, Vol. II.

with stocks, $202,097,000; manufacturers' sales offices without stock, $50,-153,000; and through agents and brokers, $34,546,000—a total of $807,-607,000. This total was distributed among the 26 trade centers as shown in Table 11. The wholesale drug trade is somewhat more than these figures. In a number of cases the census lumps some of the wholesale drug business among "others" because either the amount is small or giving the figures might reveal information of advantage to competitors.

It will be noticed that some wholesale trade centers are better than others and that if ranked by wholesale drug sales the ranking would be

quite different from either population or general wholesale trade. Manufacturers must, therefore, analyze each of their markets to discover the most valuable one and the type of competition faced. Although full and limited wholesalers do most of the business, and, because of the nature of the business, probably will for a long time, manufacturers' sales branches do somewhat more than 25 per cent and they are slowly securing a larger percentage. Study of the table will show, however, that manufacturers' sales branches are more active in some cities than in others. A number of conditions may cause this, but at the moment we are not concerned with them. It is enough to note that "wholesalers" are available in many communities so that the manufacturer who decides on a policy of selling to and through wholesalers ought to be able to do a thorough job of it and expect successful results.

In fact the map prepared by N.W.D.A., and reproduced in connection with their handbook[7] that is designed to accompany it together show drug wholesale trade areas, the number of drug stores, and the amount of business done in each of these areas. The map and handbook together can be used to accomplish the following marketing purposes:

> These areas can be used together with the data in the Handbook for laying out sales territories either wholly within any area or as combinations of two or more areas. Likewise, sales districts and divisions can be laid out as consisting of one or more of the 36 areas.
>
> Analysis of potential markets can be made and sales quotas and market potentials determined by territories, districts, divisions, and areas. Sales accounting statistics can be set up on a county basis, area basis, etc., and a measurement of performance against quotas or potentials made.
>
> One or more of the self-contained areas can be used as a test area for the introduction of new products or for the measurement of performance of new methods of promotion, since direct sales costs can be tabulated by areas, radio and newspaper coverage data are already available by counties, and now sales can be measured with a maximum error of not more than 10 per cent.
>
> Manufacturers can use the areas to measure their salesman's or group of salesmen's performances and hence to more accurately adjust compensation for the sales volume they obtain through the wholesaler.
>
> Sales managers of manufacturers and wholesalers, advertising agencies, sales accounting department heads, market research men and others should study the map and data to determine how better to scientifically plan their distribution along these lines and possibly in many other ways. The N.W.D.A. hopes for an increased interest in and further development of marketing research and study to increase the efficiency of our distributive organization.[8]

New York City is the outstanding market with respect to wholesale trade generally, wholesale drug trade, and sales by manufacturers' sales branches. More than one quarter of the country's wholesale drug trade centers in New York and it is not because of the retail, which, as shown in Table 10,

[7] *The 36 Primary Areas of Wholesale Influence in the Drug Field.*
[8] *Ibid.*, p. 2.

amounted to only $126,000,000 for 1943. Few manufacturers, if any, can afford to ignore New York City, yet they will find there the severest competition. In fact the five largest wholesale drug centers—New York, Chicago, San Francisco, Los Angeles, and St. Louis—account for more than 40 per cent of the total wholesale drug trade.

Ignoring the rest of the country, a large and profitable business, obviously, could be done with these five centers alone, and for the individual producer at not too great a cost. Even to cover all the wholesalers in the country might not be too costly a job. As a matter of fact the 1939 Census of Business shows 297 wholesalers in the general drug line and 1321 in drug and drug sundries lines classified as service and limited-function wholesalers. Together they did $520,000,000 of business, whereas manufacturers' sales branches with and without stocks numbered 291 and reported doing $252,000,000 of business.[9] The total wholesale business for 1943 as shown in Chapter 1 was, of course, much greater than the above figures and should continue in such large volume if we are to have the so-called full employment.

TYPES OF DEALERS

Retail druggists may be divided into two general classifications: independent dealers and chain stores.

Independent Dealers. The independents may be divided into six types. These are as follows:

1. High-spot transient store
2. Neighborhood pharmacy
3. Ethical drug store
4. Rural drug-doctor store
5. Rural pharmacist
6. Licensed drug dealer

The urban drug store market includes the independent neighborhood druggist. The rural market, where 45 per cent of the drug stores in the United States are located, consists for the most part of independent merchants who conduct the so-called professional and ethical stores with graduate pharmacists in charge, the drug-doctor store, and the licensed drug dealer.

Because of the distance from centers of dense population, the rural druggist is hard for the manufacturer to reach, but not if he sells through wholesalers. The manufacturer with a single product should avoid direct selling in this market until he has developed a sales volume in more easily accessible markets sufficiently large and profitable to support the expense of an attack on the rural drug store market. If his marketing plan is such that he can gain the active cooperation of the wholesaler, then the rural market should be approached through the latter. With an unusually meritorious

[9] *Census of Business,* 1939; Wholesale Trade, Vol. II.

product and an excellent advertising plan it might be possible to sell to the rural market successfully almost from the start, but generally, it will be a matter to develop over a long period of time.

However, this does not mean that the rural market is to be regarded as unimportant. The census of 1930 showed 43.8 per cent of the total population of the United States classified as rural, and the census of 1940 shows a drift back to small towns and rural areas. While the average per capita sales of retailers in the smaller towns and cities is $239, many of the individual cities and towns of less than 10,000 population that serve the rural markets have average per capita sales not only considerably larger than that of the United States as a whole, but much larger than the average for cities of more than 10,000.

Buying Habits of Independent Stores. It has been previously stated that a large percentage of the purchases made by retail druggists is from wholesalers. This is because the products carried by the dealer are bought in small quantities, usually as needed and for quick delivery. Thus, nearly two thirds of his drug and toilet goods requirements are obtained from the wholesaler. Most of the leading manufacturers of pharmaceuticals like Squibb, Parke Davis, and others of the large pharmaceutical houses sell direct. An analysis of a product will determine whether it should be sold directly to dealers or through the wholesaler. Generally single specialties of items of small value should be sold through wholesalers and not direct. This will make selling more difficult but it will mean quicker payment and faster wholesale turnover, and cut down capital needs. It should be borne in mind, though, that the independent retail stores usually have charge customers, a condition which has caused them in the past to become slow payers. The chain store does its business for cash only. This makes it easy for the chains to take care of their obligations more promptly and because of volume buying secure discounts that lower their costs, in some cases materially, enabling them to sell at prices that are not protected by fair trade contract, below the independent.* During the depression high rentals and lowered volume weakened the financial standing of many chains. From these adverse factors most chains have recovered and once again they are offering competition hard to meet. Fortunately for the independent, he forced price-maintenance acts on the statute books and these plus the

* The discount that the chain usually received, which was generally equal to the wholesaler's discount, was a decided advantage before the war. Now, however, this warehouse advantage is not as great as it formerly was. Warehousing costs are higher, shipping has become costly, and chain warehouses are as far from individual retail stores as the independent is from his wholesalers. Retailers who are able to purchase the minimum required for a direct shipment (frequently as low as $25.00) can thus buy most of the quick-selling lines from manufacturers direct, at practically the same prices as the chain. Therefore the larger independent retailer is not handicapped by any costs greater than those of the chain.

wartime shortages placed him for the time being in a position to meet any competition. The shortages have largely disappeared and he is facing stiffer competition. How well the price-maintenance acts will protect him remains to be seen.

Chain Drug Stores. The problem of selling to chains is radically different from the problem of selling to the individual retailers and requires special attention. There are two kinds of drug chains, local and national. There are hundreds of local chains consisting of a few stores each. They offer good retail coverage in many communities and can be approached quite as simply as most individual retailers. However, the larger chain organizations maintain warehouses and buying offices with trained buyers, thus leaving the store manager of little importance as a buyer. It is impossible in these cases to sell to the individual store manager of such an organization because he usually has no authority to purchase anything, and he will not listen to the salesman who may call on him; in fact he is instructed not to. All sales offers must be submitted to their buying departments for consideration.

The buyer, whose principal duty it is to obtain concessions and low prices, passes on to the merchandise committee the information he secures. Usually this merchandise committee consists of the sales manager, the merchandise manager of the stores, and district supervisors. They select, approve, or disapprove the particular proposition offered to them. A product, to interest the merchandising committee, must have unusual sales possibilities and appeal to consumers. One type of possibility is represented by an unusual price concession on a good product; another is to offer a special buy purchased at a discount that is then likely to be heavily advertised, and so lead to demand from consumers.

The Manufacturer andDrug Chain Cooperation. It is possible to obtain active cooperation from large chain systems if the manufacturer thinks such cooperation is necessary and is willing to pay the price. The attractiveness of a special offer may be the deciding factor, although goods as a rule will not be purchased outright. The buyer will usually want merchandise on the "pay-on-reorder" basis only, in which the first shipment is on consignment and is paid for only when sufficient sales have been made to warrant reordering the goods.

Where active cooperation has been secured it usually consists of some window or counter display, directed from the headquarters of the chain. If these window and counter displays are properly timed with the advertising, they will probably prove beneficial in introducing the product to the market served by particular stores. Naturally, where chains dominate the drug volume of any community, the introduction of a product through the chains becomes essential.

In these situations, the chains' price for cooperation is likely to prove a heavy one and as long as there are more desirable markets to try, it is advisable to stay out of chain-dominated markets until a product secures consumer acceptance elsewhere and a large sales volume has been developed. Then demand, assisted by advertising, may secure chain store acceptance and cooperation at not too great a price.

In many cases the stronger the influence of the chain in a territory, the greater the concessions the manufacturer must make to secure its cooperation in selling a product in that market. Many manufacturers have found that the best they could obtain from any chain in a particular community is the mere stocking of the product on a "pay-on-reorder" basis. After a while, if the campaign proves successful, the merchandise may be carried on regular terms. In the meantime, it may be desirable to give concessions to the independent retailer to offset the high-spot chain stores where the latter are not giving active cooperation in connection with the drive.

Most chain stores expect to buy direct at prices equal to the prices that are given the wholesaler. They continually attempt to gain special concessions for an offer to cooperate with the manufacturer. The wise manufacturer will see to it that the price that he pays for any form of cooperation is kept separate from the price of his merchandise, and that the particular service that is to be given by the dealer is clearly defined, so that there will be no misunderstanding as to what the service is and what is being paid for it. This service should also be checked from time to time for assurance that the dealer is cooperating.

In every community, regardless of the chain store influence, there are enough independent stores to give most manufacturers a sufficient number of outlets for reasonable tests. Conversely, however, in those communities where chain store sales control is considerable, the obtaining of cooperative effort from the chains may make unnecessary the spending of money and effort to secure the cooperation of independent retailers and, in that way, cut down the selling costs in that territory. Acceptance of a product by large chain organizations, by virtue of their leadership, frequently forces independent stores to stock the product.

Some of the larger drug chains are interested in pushing their own products. Because of the policy of consistently pushing their own private brands, and, before fair trade laws, of attempting to attract customers to their stores by cutting the prices of nationally advertised merchandise, it was very difficult to interest these concerns intensely in new products. This was especially true if the new product was a substitute or was similar to other products in the store. Should fair trade laws be eliminated or modified by elimination of the clause, making one contract and notification of it binding on all dealers, some of these conditions might return.

However, there are occasions when new, unique, or original preparations are placed on the market no matter what the conditions. Chain buying headquarters accept such products; and will give cooperation because they, too, have found that the sales stimulus of something new and interesting is necessary to keep the public coming into their stores.

Desirability of the Chain Drug Store Market. The drug chain market is, of course, frequently, a very desirable one, as has been pointed out in a recent survey of the chain drug field, made by *Chain Store Age* and entitled "The Chain Drug Store as a Retail Outlet."

> A single sales representative of the manufacturer can get a vast amount of business in a fraction of the time and with infinitely less sales expense by calling on the buying headquarters of the chain drug systems. Since it has been said that the minimum cost (salesmen's salary, traveling expenses, etc.) in introducing a new product to the drug trade is greater than \$3.50 per sale, it can readily be seen how advantageous it is to the manufacturer to secure and maintain chain store business because chains can be sold in a fraction of the time and of sales expense that is required to obtain the same distribution from the independents.

But there are difficulties to be overcome as this same report indicates:

> When a manufacturer does business with the "independent" he has only one man to consider who does everything from buying the merchandise to unpacking it and putting it on the shelves. But when a manufacturer deals with a drug chain, he is doing business with an organization consisting of a number of individuals, each of whom has an important bearing on the successful sale of his product.

Such a survey is a help in solving some of the difficulties as is indicated by the following quotation:

> The sales manager's map should be of interest to those who are desirous of increasing their chain store business since it shows in detail where the buying headquarters of the chains are located. It is complete for the entire Chain Drug field, the location of the buying headquarters of no less than 600 systems being shown, who operate 5,560 unit stores.

One advantage of selling to chain stores is the ability to get comparatively complete coverage in any market where the chain drug store dominates the field. While special concessions usually must be given, they can be made to pay in speeding up sales and getting consumer attention. The most common method of getting chain store attention is through cooperative advertising plans, which will be explained later (Chapter 14).

Special Sales Representatives and Programs for Drug Chains. It is desirable to have a high type of sales representative, preferably one of the officials of the company, well versed in the drug field, to specialize in chain store business. Because of the importance of the chain organizations, the value and type of their business, and the difficulties met in trying to sell to them, many manufacturers have set up separate chain store departments in their sales organizations.

But no matter how capable and energetic the sales representative is, he can interview, because of the time factor, only a limited number of individuals in the chain field. Hundreds of manufacturers are endeavoring to sell to the chains, and the impression made by the manufacturer's representative may quickly fade from the mind of the chain store man after he has listened to the sales stories of dozens of other salesmen during the day; consequently, the work of this representative should be buttressed by the manufacturer with various types of manager promotion. The most commonly accepted method is to advertise in the trade magazines such as *Chain Store Age—Drug Edition, Drug Topics, American Druggist,* which are read by wide-awake managers. Some firms try to make calls on the individual stores. This practice as pointed out above is frowned upon by the chain headquarters, and the practice is usually forbidden. However, any organization is made up of human individuals, and many former employees, particularly ex-managers of drug chains, can be hired to make service calls on individual stores, which might turn into profitable business later.

Promotion plans should be designed to serve as reminders to the buying executives who are called upon for orders as well as to attract the attention of the other important men in the chains, such as merchandise managers, general managers, and so on. In addition to this, a plan should be developed to keep in touch with the store manager regularly. Constant contact is necessary in order that the store manager, who is the link between the manufacturer and the consumer, be thoroughly acquainted with the manufacturer's complete line of products and with the consumer advertising being done, and be generally favorably disposed toward the product.

Theoretically, the internal workings of the chain system should acquaint each store manager with "hot numbers" and get them feature play on the counters. Unfortunately, when it comes to toilet goods, far too many managers trust to the opinions of the girls behind the counter, particularly the girl in charge. The result is, two stores of different chains, almost side by side, will have an entirely different opinion of the same product, and sales will show it. Some chains permit demonstrations, and if a product lends itself to this, the demonstration will help put a product over in many other stores in the vicinity.

The sale through the chain store buyer must be carefully watched and supplemented by service. Here is what G. B. Clark, a former buyer for a large chain store organization, writing in *Chain Store Age,* lists as some of the mistakes that a manufacturer makes in dealing with chain organizations:

Off hand looking back over my years of experience in dealing with manufacturers, I recall eight mistakes that manufacturers often make that retard them in establishing and maintaining successful relationships with chain stores. These eight errors are: (1) Failure to realize that the buyer does not assume to "know

it all"; (2) Failure to present the buyer with complete information concerning the product; (3) Failure to tag and list samples properly; (4) Failure to cooperate with the buyer on suggestions; (5) Failure to keep the buyer informed of the quantities shipped each month to the individual stores; (6) Failure to advertise in trade publications and national magazines; (7) Wasting the buyer's time with gossip; (8) Neglecting to call on small as well as large chains.

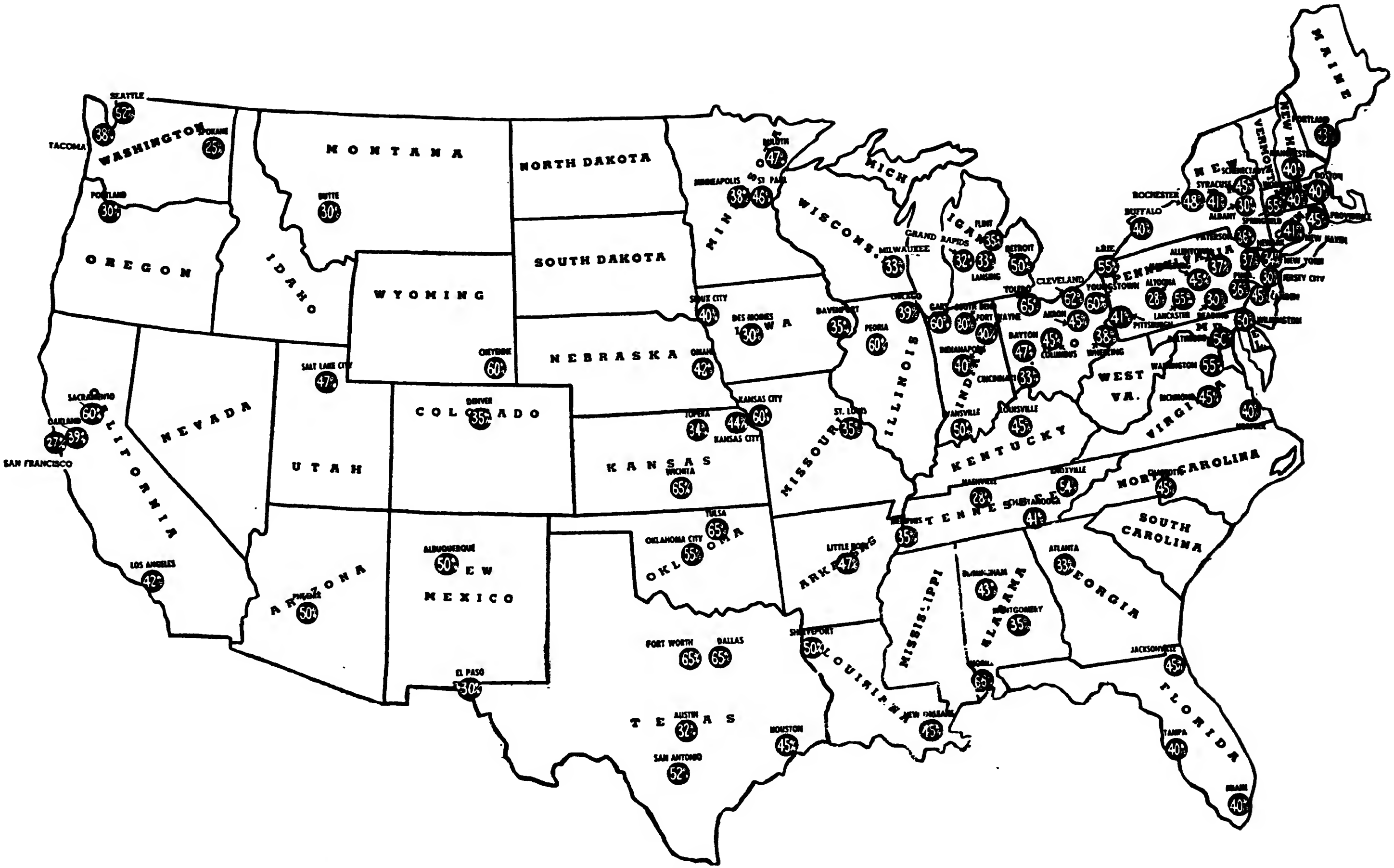
When a drug chain has proved the sales possibility of a product, as a rule the proper executive instructs all the store managers to carry a minimum stock. In some cases, store managers in the drug chains have the privilege at times of issuing emergency orders for special products called for by customers even though these items have not been approved by the merchandising committee. In other words, if advertising has created a demand for some product, then the chain manager is permitted to buy that product from the wholesaler if his own warehouse does not carry the product in stock. This assures the manufacturer that if he creates a demand, the chain will stock. Many chains have stocked products that started from demands of one twelfth of a dozen.

The Price Relationship Between Chains. Chains have now and then fought one another so hard that it has been practically ruinous for some. When this tendency arises, however, it is likely to be short-lived, because the chains themselves realize that the thing they are attempting to do, that is, create customers for their own products by so-called "cut prices," has not been successful. Some of the cutthroat competition among the smaller groups of such organizations may continue for a long time, because personalities are given greater play than sound business services. During the maneuvers for price-maintenance legislation many of the chain organizations allied themselves on the side of maintained prices and now are staunch supporters of it.

Chain Drug Store Dominance in Cities. In some cities, as is shown on the map on page 100, the chain drug store dominates the market. Consequently, success in the sale of a product is hardly possible in those communities unless chain store cooperation is obtained. In cities, for example, such as Washington, D. C., Cleveland, Indianapolis, Chicago, and Detroit, the majority of the transient trade and most of the local trade are in the hands of the chain store group. They represent concentrated markets but it is inadvisable to use these places as test towns unless chain store cooperation is obtained.

In the 100 largest cities in the United States, 41.5 per cent of the retail drug business is done by chain stores,[10] as against less than 26 per cent for the country as a whole. These percentages, however, vary considerably as

[10] "1945 Chain Drug Marketing Map," *Chain Store Age*, New York, 1945. Map reproduced by permission of *Chain Store Age*.



Percentage of retail drug volume done by chain stores in selected cities in the United States during 1945.

will be noted from the following table. They go from the highest percentage of 80 in South Bend to a low of 25 in Spokane.

TABLE 12. RETAIL DRUG BUSINESS BY CHAIN STORES

City	Percentage of Retail Drug Volume Done by Chains	Number of Chain Drug Stores
South Bend, Ind.	80	6
Dallas, Tex.	65	38
Toledo, Ohio	65	28
San Antonio, Tex.	52	34
Oklahoma City, Okla.	55	21
Cleveland, Ohio	62	107
Albuquerque, N. M.	50	4
Salt Lake City, Utah	47	18
Chicago, Ill.	39	219
Charlotte, N. C.	45	5
Detroit, Mich.	50	129
Washington, D. C.	55	71
Providence, R. I.	45	19
New York, N. Y.	34	154
Spokane, Wash.	25	5

In those cities where less than 50 per cent of the drug business is done by the chains, intensive sales effort can be undertaken by a manufacturer, with hope of worth-while results if his product is one that is best sold in the independent retail store.

Some products, however, are best suited for transient trade. Then it would be wise to have tests conducted in places where chain influence is dominant. Since, however, it is not always possible to secure active cooperation from the chain stores, the newcomer has a better chance for cooperation from the independent retailer, who is willing and apt, in most cases, to take hold of worth-while new products and market them. He does this because new products offer him the opportunity of obtaining full price for his merchandise and they have not yet become popular enough to attract the inevitable price cutting.

The "Chain Drug Marketing Map" can be used to select cities in which to operate, with or without chain store cooperation. Used in conjunction with the N.W.D.A. *Handbook* it is possible to work out the number of drug stores in either the chain or independent categories and the coverage each offers in selected communities. This would also enable a manufacturer to estimate closely the costs to cover either group.

Other Chain Stores and Drug Products. There are particular situations in each community that will be disclosed by a study of the market. For example, in a number of communities the chain store, other than drug, competes strongly with the department stores, and both, as a result, get a large share of general drug and toilet business, so that comparatively little

desirable business is left for the independent retailer. In such cases it may be necessary to resort to other procedures.

For the country as a whole the following gives an idea of the extent and nature of the retail volume of chains that carry large assortments of drug products:

TABLE 13. CHAIN STORE SALES BY KINDS IN 1939 *

Kind of Business	Number of Stores	Total Net Sales (000 to be added)	Per Cent Chain Sales of Total Sales
Dep't Store Chains	2,672	$1,194,517	30
Drug Store Chains	4,135	326,549	27
Gen. Mdse. Chains	2,181	125,005	—
Variety Chains	6,372	847,666	87
Total	15,360	$2,493,737	

* *Census of Business*, Vol. I, Retail Trade, 1939, Part 1.

Of the grand total it is estimated that about 12 per cent comprises drug and cosmetic products.

Cooperative Chains. A new type of drug store chain has gained quite some headway and that is the so-called "voluntary" chain. This is patterned after a form of merchandisineg found in the grocery industry. One of these groups is called the Independent Druggists' Alliance. The object of this group is to get independent unit stores to buy cooperatively, and merchandise in the same way. Their influence has not yet been felt to any great extent because they are still few in number and their expansion was hindered by the war, but they may become an important factor as they have in the grocery field, where in five years they grew from 59,640 to 103,334 stores.[11] They will be discussed further in the chapter on cooperative plans.

OTHER TYPES OF RETAIL OUTLETS FOR DRUG AND COSMETIC PRODUCTS

In addition to the drug store, chain and independent, there are other outlets handling drug products whose influence on trade volume is important. These are discussed in the following order: general merchandise chains, grocery stores and supermarkets, mail-order houses, department stores, beauty parlors and barber shops, institutional outlets, company stores, Army and Navy outlets, general stores, house-to-house selling, and strategically located vending machines. Each of these calls for a special form of approach and merchandising effort.

A study of these outlets appears in *Drug Trade News* for 1939. There is no known comparable later study. Studies of single phases of the market suggest that drug stores and department stores still lead in the sales of

[11] Statistical Supplement to *Principles of Marketing*, by H. H. Maynard, W. C. Weidler, and T. N. Beckman, Ronald Press Company, New York, p. 23.

toiletries[12] but the surveys of *Progressive Grocer* and *Super Market Merchandising* for 1944 suggest that grocery stores are increasing and will continue to increase their share of the market. These surveys are treated more fully later in the chapter. The following table prepared by *Drug Trade News* not only illustrates how important the variety chain has become but it also shows the importance of other types of outlets in the marketing of toiletries:

TABLE 14. IMPORTANCE OF DIFFERENT OUTLETS MARKETING TOILETRIES

Outlets	1939 Sales	1929 Sales	Plus or Minus for 1939 over 1929	1939 Ratio to U. S. Total	1929 Ratio to U. S. Total
Drug stores	$183,300,000	$220,740,250	− 16.8%	38.9%	53.5%
Department stores	128,960,000	76,503,769	+ 68.5%	27.4%	18.5%
Variety stores	88,690,000	42,266,974	+110.0%	18.8%	10.2%
Medicine & cosmetic shops	23,000,000	27,954,138	− 17.5%	4.9%	6.8%
Country general stores	11,000,000	20,957,313	− 47.3%	2.3%	5.1%
Dry goods stores	4,000,000	7,136,794	− 43.7%	0.8%	1.7%
Ready-to-wear stores	5,000,000	5,022,572	− 0.4%	1.1%	1.2%
Beauty shops	4,500,000	3,909,076	+ 13.3%	1.0%	0.9%
General merchandise stores	1,500,000	2,288,688	− 32.0%	0.3%	0.6%
Jewelry stores	1,000,000	1,944,483	− 47.4%	0.2%	0.5%
Family clothing stores	1,000,000	1,681,301	− 37.5%	0.2%	0.4%
Mail-order houses	8,000,000	1,604,858	+400.0%	1.7%	0.4%
Cigar stores	1,250,000	975,706	+ 30.4%	0.3%	0.2%
Super & grocery stores	10,000,000	....	....	2.1%	.....
	$471,200,000	$412,985,922	....	100%	100%

The above does not tell the whole story. Different types of products have a greater or lower sale in the 10¢ store. For instance, Dell Survey previously mentioned shows that 82.5 per cent of hair curlers, 21.5 per cent of sanitary napkins, and 55.9 per cent of nail polishes are sold in the 5-and-10¢ stores. Note also the advent of the new outlet, the supermarket and grocery stores. Their importance is growing. The increase in sales in the mail-order houses was probably taken from the country general stores because of greater space in catalogs and special values. Note the sharp drop in drug store sales and the increase in variety store sales. This increase is still continuing at a sharp rate.

General Merchandise Chain. Since 1920, the general merchandise or variety chains have come to the forefront as outlets for drug store types of products, particularly cosmetics and sundries like toothbrushes, mouth washes, combs, and so on. These chains rank next in importance to drug stores.

The most important independent group of general merchandise chains is the 5-and-10¢ to $1.00 syndicates. They vary from the F. W. Woolworth

[12] *The American Perfumer and Essential Oil Review*, Mar. 1942.

Company with over 2000 outlets to hundreds of smaller chains comprising from 3 to 50 units and the independently owned single stores. Figures for 1945 show that the 5-and-10¢ group comprised about 17,000 stores, of which approximately 5200 were owned by the so-called "Big Nationals"[13] and about 12,000 in the smaller chains and independents. Their toilet goods volume by 1945 had reached an estimated but impressive total of $200,000,000, or 30 per cent of the total retail toilet goods volume. In 1929 their sales had amounted only to $42,266,974.

In attempting to interest the national chain outlets in this merchandise field, it is necessary to use a method of approach different from that used in the drug store chain, because of the difference in purchasing organization. In the merchandise chains, the departments are divided more sharply than in the drug group. The buyer for a specific department generally has considerably more power than the drug buyer or the sales manager of the drug chain. He, of course, interviews sales people who approach him, and generally he makes his selections independently of other executives, although in some cases the power of the buyer is restricted somewhat by a merchandising committee, consisting either of the store managers and the superintendents, or the superintendents and the general merchandise manager. The 5-and-10¢ store buyer, having selected a product, and having had it passed by whatever merchandising committees are operating, proceeds to issue a listing on the product. This usually is a notice to each of the individual stores in the chain, advising the store manager that he is permitted to purchase the particular product. The chain store managers then have the option of buying the product or not, as they see fit.

Frequently, however, when in the eyes of the buyer a product appears to have exceptional sales possibilities, the buyer himself, or the district managers or supervisors, may issue what is known as assignment orders, with shipping instructions, for merchandise to be sent to key stores for test purposes.

The variety chain store is operated on the specific turnover basis. Each product that is placed on the counter must pay its own way. Careful records are kept of the ratio of turnover of all products, and any particular product that does not yield profitable sales gradually diminishes in favor and is finally eliminated from sale in the store. It is obvious, therefore, that in the chain stores of this group, package appeal is important and when a product is placed on open display in the store, the opportunity is presented of demonstrating its sales value and the advertising pull it possesses. If successful in these respects its sale is continued by the store.

[13] These are F. W. Woolworth Co., S. S. Kresge Co., W. T. Grant Co., McCrory Stores Corp., McLellan Stores, S. H. Kress & Co., H. L. Green & Co., Neisner Bros., Scott Burr Stores Corp. (a subsidiary of Butler Bros., Wholesalers), G. C. Murphy Co., J. J. Newberry Co.

The most popular price range in the variety stores is 10¢ to 25¢ and it is estimated that 90 per cent of the sales are in this price range. The variety chain gives effective distribution with less sales costs in the traffic centers of most cities. The stores are usually well located, have large consumer traffic, and give the manufacturer the opportunity of obtaining the fullest value from his advertising. The chain manager can and does give real cooperation to the manufacturer of products in which he is interested. He will tie in displays with the merchandising of the product and this aids materially in making sales. Chain stores have permitted manufacturers' demonstrators, in an effort to attract customers, and the outlets have, consequently, become more important in the manufacturers' efforts to break [14] into the market. There are many successful products like Cutex, Flameglo, Irresistible, Dura-Gloss whose sales are largely in the variety chain stores.

Grocery Stores and Supermarkets. A survey by *Drug Trade News* showed that grocery stores and supermarkets were in fourth place as distributors of drugs, medicines, and toiletries. In a survey by the *Progressive Grocer* in 1944 forty-three per cent of the better grocery stores, as against 37 per cent in 1935, were found to carry drug sundries. In at least one case these drug store products accounted for 15 per cent of a grocery chain's total business.[15] Another survey, by *Super Market Merchandising*,[16] found that nearly 1400 stores, mostly supermarkets, were planning new drugs and toiletries departments, and the last two surveys indicated that many more grocery outlets were either planning or considering such a department for after the war.

These stores apparently are specializing only in quick-moving items and they are inclined to favor well-known brands. It would seem that manufacturers of dentifrices, shaving creams, hair dressings, shampoos, lotions, and creams, and, where state laws do not prohibit, manufacturers of headache and digestive remedies, vitamin pills, nose drops and inhalants, and chest and alcohol rubs can no longer ignore these outlets. Considering the large number of grocery stores, their customer traffic, and their aggressive merchandising policies it might be wise for manufacturers to make up special lines for them as was done when it was discovered that variety stores could handle large volumes of some products.

The approach to the independent grocers should be much the same as to the independent druggists except that more educational work will be necessary. To the former these are new goods and much advice will be needed. With chains, supermarkets or otherwise, a chain store approach

[14] See Woolworth story in *Drug Trade News*, Aug. 5, 1935.
[15] Quoted in a letter to the author by *Progressive Grocer*.
[16] Jan. 1945 issue.

will be necessary. There is, however, one thing in the seller's favor—this is still experimental ground. The seller who gets there first with good products and favorable prices will be in on the ground floor. His products will be "in." Because of the tendency in these stores to offer a selected line he may be in favor for a long time.

Mail-order Houses. Since 1920, the number of mail-order houses has diminished materially. For all practical purposes they have been reduced to the two largest, Sears, Roebuck and Company and Montgomery Ward and Company. There are several smaller houses, whose toilet goods business, however, is not of large volume; nor are they important.

A study of the catalogs of the two main mail-order firms shows that the toilet goods and the drug sections contain many nationally advertised products, the balance being private brand merchandise, on which the profit margin is usually greater. The catalogs, through which many of the sales are made, are prepared several months in advance of issue. Therefore, in order to obtain listing in them, the prospective buyers of the mail-order houses must be solicited in time to make the issue of the catalog. The catalog house buyers insist upon being paid for space in the catalogs, especially in the drug and toilet goods section. Because of the limitation of space and the number of lines competing for it, special concessions from the manufacturer are usually expected by the mail-order houses. Payment must be either cash or a percentage of the sales for the space given. However, this is not a *sine qua non,* since buyers will not list in the catalog every item offered by a firm. The catalog's success is dependent upon sales and each page of the book is expected to produce its proportionate returns in sales; consequently great selectivity is practiced by those who decide what is to appear in the catalog.

The potential sales volume from the catalog is high, as is evidenced by the extensive drug and toiletry lines in the books, and the large amount of space devoted to products of this type, although the amount of space given to each item is frequently little more than a few lines. These catalogs give any manufacturer excellent rural coverage in large areas that are ordinarily difficult for manufacturers to reach, and help close distribution gaps for national advertisers. Sales value may become much greater if an experiment now being tried out is successful. The mail-order house of Spiegel, Inc. has experimentally established mail-order desks in a few gasoline service stations. The managers of the stations, it is hoped, will show the catalogs and take orders, which will then be filled by the mail-order house.[17] Other outlets might be used by Spiegel and other distributors successfully.

It is practically impossible to get into the catalogs unless one is prepared to offer unusual values, or else create a sufficient consumer demand

[17] *Business Week,* April 28, 1945.

for the product so that the mail-order buyer will want to list the merchandise. Sears, Roebuck and Montgomery Ward each also owns a chain of department stores. Originally these stores stocked only the merchandise listed in the catalog. However, now the branch stores carry lines appropriate to the territory that they serve, and they should be solicited just as any local chain is.

Department Stores. The department stores each for a time represented an independent outlet, few in number in each community, but very important in their control of sales and their effect on other stores' policies. For a long time department or section buyers were the important factors in purchasing for individual stores but as a result of the era of consolidation and combination among department stores, the power of the buyer has been reduced so that the merchandising manager has become the one who determines the nature of the products that the department store is to carry. The department stores do not, in a large way, go in for what is commonly known as "quick sale" or popular demand merchandise in toilet goods departments, except where there are basement departments. In cosmetics they especially favor lines pushed by hidden or open demonstrators, who are paid for by the producer of the goods.[18] Their desire appears to be to handle nationally known branded lines, agency lines, high-priced specialties, exclusive packages, and lines that are advertised by demonstration appeal to department store customers. Few department stores will promote any specialty that sells for less than $1.00. For this reason it is very difficult to get on the already overcrowded counters of the department store with new lines and quick sales products unless unusual, special inducements are made. These inducements usually take the form of extra discounts, liberal advertising over the store name, premiums for clerks, payment of clerks' salaries, and hidden demonstrators. If a demand is created for a product, the department store buyer will stock it unless, of course, the center of the sales efforts in that section is a special store selected for a sales drive. The manufacturer must determine for himself to what degree he wants to make these inducements in exchange for the merchandising cooperation he can get from the stores selected.

Department stores rarely will start a new promotion item without large advertising allowances. Since 1930, advertising allowance demands from the larger department stores have been increasing, especially in the large cities. Most of these advertising allowances originated in connection with the sale of toiletries and at first were only large enough to cover the cost of demonstrators. Today, it is very difficult to introduce any line or spe-

[18] The Federal Trade Commission investigation in the Elizabeth Arden case revealed 37 demonstrators in Abraham & Straus in Brooklyn. See Federal Trade Commission *vs.* Elizabeth Arden, Order 3133, Oct. 7, 1944.

cialty through a department store without cooperative advertising, demonstration, or both. Generally, consignment or guaranteed sales are demanded. Most large stores are staffed mainly with hidden and open demonstrators. Because of the above, department store outlets require special handling. Department stores are not particularly important outlets for drug products until a product has become established or gained sales momentum. There is no hard and fast rule that can be all inclusive. Some firms that are department-store-minded, like the cosmetic house of Shultons, have become definitely successful with these outlets, using them as their principal selling outlets. Others find drug chains and retailers and still others the variety store as giving the line of least resistance. The only sure answer is the trial-and-error method. The choice depends entirely on the retail price of the article, the advertising margin possible, the number of similar items in the store, and the ability of the sales promotion department of the manufacturer to interest store buyers. A new type of product, like the new vogue in home permanent waving, tells both sides of the story. Crowning Glory—retailing at $2.00—and Portrait—retailing at $1.25—are making their main efforts through department stores with cooperative advertising as the backbone of their campaign, while products for the same purpose like Beauty Time, Chic and Charm Curl—retailing at from 74¢ to 98¢—are putting their sales efforts with drug chains and variety outlets. Department store buyers never like to trade down, so if they are selling a $1.50 or $2.00 kit, they definitely will not be interested in the lower-priced unit. These outlets are important, and if you have a product that will interest them, and you can afford the initial cost, you certainly must include them in your plans. In approaching department stores, you must also consider the resident buying offices in New York City, through which many department stores all over the country can be reached.

Beauty Parlor and Barber Shops. There have been many attempts to teach merchandising to the owners of barber and beauty shops. These stores are a national outlet for toiletry services but have not been successful in their ability to merchandise toiletry products to their patrons. It would seem from the nature of their business that they should be the first place where men and women would prefer to buy toilet goods. But this does not happen, and its failure to happen appears to be due to the fact that most proprietors of beauty and barber shops are either trained to give or interested in giving only personal service, and are inexperienced in selling merchandise; therefore they are not inclined to spend away from actual personal service the time necessary to sell merchandise. Furthermore, their financial ability does not permit them to carry anything but a modest assortment and a small stock of restricted lines. The tendency is for people

to go to the stores carrying full lines to make their purchases. The brands that are usually sold through beauty shops are more or less confined to that field, private brands and bulk goods, and not widely known among customers.[19] This field, therefore, is limited for the general manufacturer, although the consumption of toiletry products for use in the beauty shops is considerable. Beauty shops are rarely sold direct by manufacturers. They are served by wholesalers who handle both equipment and cosmetics. These merchants are interested only in lines yielding large profits and frequently offer their own private brands.

The 1939 Census of Business reported 117,998 barber shops, which did a business of $230,983,000; 4199 barber and beauty shops, which did a business of $18,618,000; and 83,071 beauty shops, which reported a business of $231,670,000—a total of $481,271,000. The expenditures were mostly for labor and rent. Nevertheless they account for some millions of dollars' worth of business in shaving soaps and creams, face creams, powder, after-shave lotions, hair dressings, and manicure supplies. It would seem that some enterprising manufacturer or wholesaler could develop a considerable sale-to-consumer business through these stores by making up a point-of-sale receptacle or vending machine to hold a line of either men's or women's toiletries including, in addition to the products just enumerated, a deodorant and a cologne water. In addition some instruction in the sale of such products to consumer, for use between visits to the store for service, could be given to the owner or operator.

The manufacturer who wishes to cater to this trade must develop special lines that show large profits. His point of contact is the wholesaler and the jobber who specialize in the beauty and barber shop trade, but who will handle only merchandise that gives them large discounts, yet might work in the above idea and thus increase his sales materially.

General Stores. The general store is an important minor outlet for drugs and toiletries. The 1939 Census of Business [20] showed 53,307 general stores, located for the most part in rural sections of the country, which accounted for sales of $1,294,264,000. These stores are not easily accessible and most advertising, except radio, does not reach their customers, yet they have a large demand for the generally accepted types of drug and toilet goods products.

The problem of reaching this group is one that requires special study. It would be difficult for most sales organizations to reach them. Contacts with these merchants should be left to the wholesaler, and special deals,

[19] A limited survey conducted by Louis Bader in 1945, but not published, shows men's toiletry articles purchased largely in drug stores.

[20] *Retail Trade,* Part 3, p. 7.

such as intensive sales drives, special commission for salesmen, envelope inclosures for mailing, and cooperative drives with wholesalers' salesmen, will help to push sales. In the lower-price ranges we also find that the dry goods jobbers, through their cosmetic departments, reach many of these merchants.

It has been stated by the N.W.D.A. that nearly one third of the package goods sales of drug and toiletries does not move through the regularly accepted wholesale drug or direct retail selling, and it is believed that most of this volume reaches the consumers through the general store.

Institutional Outlets. Drug products are also sold to hospitals and clinics, various government departments and institutions, such as Army, Navy, police, prisons, boards of education and homes, also to colleges and universities, steamship lines, and large industrial concerns. The approach to these organizations is quite different from sales to retailers. Many of these outlets buy through bids open to any reputable and competent businessman. In other cases the approach is similar to that for doctors, and in still others the same as for the wholesalers. For some of the smaller governmental units the approach may be unique, involving some questionable practices. In one case we had experience with a local druggist who got all the business of the board of education and police departments and he was also the agent of a producer whose product was purchased in amounts of $1000 and more. No one else could supply that product and no other producer's product apparently would do. The druggist was very friendly with the ruling politicians and seemed to find the business very profitable.

The individual outlets in this field may sometimes appear to be small, but the business as a whole is large enough to warrant, in the cases of full-line houses, the establishment of a department to handle the business. It is not proposed here that you go directly after each possible order, but rather to study the necessary approach in cases worth going after and then to take the steps to secure the business; the approach may be through wholesalers, retailers, or direct as in the case of bids.

You may secure, as a preliminary step, mail lists of hospitals, correctional institutions, and homes for orphans and aged people, police departments, boards of education, and the purchasing agents of federal, state, and municipal governments. Through judicious inquiry, by mail or otherwise, you can easily find out when, where, and how purchases are made.

Further evidence of the importance of these outlets for drug store products may be seen from the estimates of the National Resources Committee that there are over 2,000,000 people in the institutional field and that expenditures of over $700,000,000 result from the consumption of these peo-

ple.[21] The authors are allowing in these estimates for some increase since 1935.[22]

Company Stores. The stores maintained by the large mining, lumber, and other manufacturing companies for their employees provide a not unimportant outlet for toilet and drug products as a group. However, the price range of purchases by individual patrons is not very high. Their customers, as a general rule, are out of reach of the average form of advertising employed by most firms. They are either in the extremely low-income group, inclined to buy goods on a price rather than a quality basis, or else they are foreigners whose taste for American merchandise has not been fully developed. Therefore, if any products are to be sold to the company stores, the sale must be made largely on the basis of price. Stores of this group can be reached at the general headquarters of the company owning them, but their consumption per unit being unimportant, they do not warrant too much sales effort or expense on the part of the manufacturer in attempting to reach them; they usually are adequately taken care of by wholesalers.

Army and Navy Outlets. Somewhat similar to the company stores are the Army canteen or post exchange and stores on naval vessels. We are likely to have both a larger Army and Navy than before 1941 so that these outlets will continue to supply the wants of several million men, and in some cases their families who because of their age and because of regulations will consume large quantities of certain toiletries. The medical branches of the military services will continue to buy large quantities of drugs, medicines, sundries and some toiletries. They should receive careful study as outlets for particular products.

House-to-House Selling. House-to-house canvassing is responsible for only a small fraction of retail sales. House-to-house selling is a form of merchandising that any drug store product manufacturer, particularly of toiletries, can attempt. However, he will come directly in conflict with his retail outlets; so that any manufacturer who contemplates creating dealer good will and cooperation should avoid attempting to develop sales in this manner. Most merchants in all communities object very strenuously to house-to-house soliciting, and do everything in their power to discourage the practice, even going so far as to attempt to get local governments to pass ordinances taxing such solicitors out of business. In a survey made by stu-

[21] *Consumer Incomes in U. S.,* National Resources Committee, Washington, D. C., 1938, p. 32.

[22] This figure may need drastic revision upward. This is suggested by the New York Trust Company survey of hospitals, which reports as of 1945 a total of 6611 registered hospitals in the United States with a bed capacity of 1,729,945. The next few years will see the capacity exceed 2,000,000 beds with annual admission of over 18,000,000. See *The Index,* Summer 1945.

dents of New York University, under the direction of one of the authors, among some New York suburban communities it was discovered that 95 per cent of the housewives interviewed preferred to buy from local merchants and were becoming increasingly hostile to house-to-house selling.[23]

Vending Machines: Shortly before World War II vending machines were receiving careful consideration as merchandising devices to reduce costs. Since the end of the war new machines have come on the market. One of them called Pik-Ups holds ten different items of varying sizes delivered by push-buttons. These are used to sell, among other products, drugs and cosmetics. Each machine holds a substantial quantity of each item stocked. Some enterprising manufacturer of toiletries or freely used medicines will find a good market for his line by placing such machines with his products in hotels and restaurants, travel terminals, department stores, lobbies of large office buildings, night clubs, dance halls, and barber and beauty shops. Pik-Ups begin at $50, but other makes may be less costly. The vending machine might be a cheap but effective way of breaking into a market thus making unnecessary special deals with retailers.

SELECTION OF OUTLET

Influence of the Type of Product on Selection of Outlet. In making the selection of outlets for concentration, it is necessary to consider carefully the buying habits of the public. Usually, most drug store products are products that are not shopped for, because they are low-priced, convenience items, or products on which advice of the pharmacist is asked. The public is apt to make purchases in its neighborhood local store of those products that do not involve a considerable sum of money and are usually consumed rapidly and replaced freely. These are usually the emergency purchases, which must be quickly replenished as supplies are consumed.

Other types of products, especially expensive beauty products and perfumes, are sold largely in department stores, frequently by manufacturers' demonstration agents.[24] Those firms that concentrate on the department store for distribution usually find that it is most advantageous and desirable to work with the class of stores that specialize in fashion goods and whose price level is above the average. The medium- and lower-priced stores were frequently price cutters before the fair trade laws were passed and therefore were of little interest to the newcomer in the manufacture of cosmetics. Since the U. S. Attorney General's office seems to be determined

[23] *Journal of Retailing,* Jan. 1934.

[24] See Report of Federal Trade Commission in Elizabeth Arden Case involving Robinson-Patman Act and the use of demonstrators.

to cause the elimination of the fair trade laws, such stores may continue to be regarded as of little interest to the new manufacturer.[25]

The United States Censuses of Retail Distribution show that about 63 per cent of the retail drug sales is done in about 32 per cent of the drug store outlets. Too great a proportion of the costs of getting business is caused by trying to reach the last 20 per cent of the dealers. The manufacturer, therefore, should be very careful to analyze the general purchasing habits applying to his particular product and select the means of reaching the greatest number of potential purchasers, through the most easily accessible and reliable dealer outlets. Dealers who cut prices may not be desirable. The data of the drug store survey in St. Louis, undertaken by the United States Department of Commerce, disclosed the fact that the effect of price cutting on sales was that very few additional products, other than those that were cut, were sold because of the price cutting.

In analyzing his potential market, a manufacturer should discover what outlets generally are dominant in the sale of the product he proposes to make. The manufacturer of cold and cough medicines will more often find his market in the neighborhood store than in the chain store. High-priced toiletries such as Harriet Hubbard Ayer, Elizabeth Arden, and the Rubenstein line are sold usually through department, chain stores, and so-called Gold Coast drug stores. Sundries, low-priced toilet preparations, proprietaries, and ethical products are sold for the most part through the thousands of neighborhood drug stores, where the bulk of prescriptions are filled and the advice of the druggist is sought for purposes of self-medication. The manufacturer must, therefore, arrange his selling and merchandising plans so that they will reach and appeal to those dealers who get the business of the consumer who buys his type of products.

A careful survey such as those made by Modern Magazines will disclose where the public does most of its buying of various types of cosmetic and toiletry products. For instance, soap—which is a toilet article—is sold heavily in grocery stores. Drug stores run as high as 90 per cent in some products and as low as 20 per cent in others. The types of outlet where the public does most of its buying will govern the sales policy and plan. Proper research will indicate potential consumption, the rate of turnover, and the best outlets. Consideration of the above, along with necessary data about the number, the age, the sex, the income, and other characteristics of the people in a trading area (as suggested in Chapter 1), should give the manufacturer an adequate idea of the extent of his dealer market and should enable him to judge how to reach this group most effectively and inexpensively.

[25] *Business Week*, Mar. 10, 1945, p. 93.

Broadening of Outlets. The drug field presents the same problem with regard to outlets as do other fields, that is, the danger of having a product confined to too few outlets. Whereas in many places it may be found that to operate through the chain store is sufficient, in the long run such a practice might be costly. The market then is controlled by the chain and if the chain decided to get behind another product the market is weakened, or impossible conditions might be laid down for the continuance of orders. Sometimes protection is offered by the fact that after a preparation has become popular in any community even through chain store sales only, there will be a tendency to diversion of business from the chain store to the independent retailer, and, thereby, the expansion of outlets to a broader, safer base. Many wise retailers keep close watch on the merchandise methods of chains and attempt to secure the products that have a successful sale in the chain stores.

Manufacturers are faced with the temptation of seeking new outlets such as grocery stores and variety chains for their goods to make up for loss of volume in sales. Just how far this tendency will go in the industry is still undetermined. For the present, however, most manufacturers are finding that a large part of their business is obtained at a sales cost that is prohibitive, and they find that the elimination of some of their unprofitable outlets and the consequent saving of the time of men who would otherwise call on them reduces expenses materially and makes it possible to show a profit even on the reduced volume [26] that failing to call on certain outlets may develop. As they reduce their accounts by eliminating small-ordering drug stores some may add grocery and chain store accounts. Grocery stores, chain stores and supermarkets especially are looking for some packaged drug products. If drug stores continue as general stores by adding grocery store items a battle royal is in the making. Grocery stores are a 1000 per cent more numerous and as a pressure group out for legislation favoring themselves, they may prove more effective than drug store associations ever were. Manufacturers of drug and cosmetic products must watch this situation carefully. Present conditions of high road expenses, scarcity of trained men, and high salary costs have cut down the economic desirability of direct contacts with many retailers. These have increased the importance of the wholesaler for the manufacturer who has enough merchandise to sell, and wants to make a sharp drive for orders.

Changes in buying trends, from one group of outlets to others, mean

[26] Note the campaign of Coty, Inc., in 1946, to reduce the number of drug stores to handle their line. They selected only those that would stock a minimum of $177.14 of their products and agree to give the amount of display space specified by Coty. Coty is reported to have dropped 2700 accounts in New York City alone. This plan was first tested out and in a limited area, and it is believed to be the new policy to be adopted nationally (*Business Week*, April 27, 1946).

changes in sales policies and sometimes complete revamping of organizations. A sales organization keyed to sell to high-class department stores and chain drug stores will know very little of the independent variety chains and the independent 5-and-10-cent stores, who buy their merchandise including toilet goods from regularly known dry goods jobbers and who sell millions of dollars worth of toiletries. Some of the largest dry goods jobbers include those like:

Butler Bros., Chicago, and 5 other cities.
Sprouse Reitz Company, Los Angeles, Calif., and Portland, Oregon.
Ely and Walker Dry Goods Company, St. Louis, Missouri.
Consolidated Merchandise Wholesale Corporation, New York City.

There are over 300 dry goods jobbers handling miscellaneous lines who also sell toilet goods in 10 and 25¢ sizes. Some of them publish extensive câtalogs regularly and all of them include the leading advertised brands of package remedies and toiletries in their listings. The drug sections also include most of the common household packages. These houses usually have large sales staffs, some as high as 50 to 75 salesmen, reaching all small towns, and they include in their operations a complete coverage of general merchandise stores, particularly many outlets not reached by drug wholesalers.

Within the past few years, a number of the small dry goods wholesalers have begun to specialize in the sale of this low-price merchandise to drug stores also. Many drug wholesalers do not care to stock anything but a few 10¢ nationally known numbers. There are many drug stores that cannot buy enough of a single line of 10¢ cosmetics to warrant a direct shipment, but the aggregate sales of these stores run into substantial volume. One firm that sells a number of foot specialties to the 10¢ field has three salesmen traveling 48 weeks during the year calling on dry goods jobbers and independent 5-and-10¢ retail outlets. Out of their total volume of $900,000 worth of business in 1943, practically all from 10¢ stores, they did $600,000 worth with the Big 11 (the national chains—Woolworth, etc.) and $300,000 with the local chains, independent outlets, and the type of jobber mentioned above. Their sales cost was less than 8 per cent to the independents. A potential volume of this size cannot very well be disregarded.

Another firm started to sell in the 10¢ field in 1937. At first the sales to outlets other than the National Chains were 7 per cent of the total. While sales increased steadily by 1941, the sales to the independent outlets had grown from 7 per cent to 40 per cent of this firm's total.

The dry goods wholesaler is interested particularly in supplying his trade with the type of merchandise that will appeal to his public and, at

the same time, demands more than the usual drug wholesale discount. His shipments are in small units and transportation costs are higher. Furthermore many wholesalers who did not pay too much attention to toilet goods have increased their efforts in this field, since they had their sale of notions, hardware, and soft lines cut down because of shortages. One very large hardware jobber, with 174 salesmen, has started to expand its toilet goods sales and is making rapid strides in that direction. This particular firm found that a completely integrated 10¢ department handling merchandise other than hardware helps cut down the sales cost for all lines.

Professional Endorsement and Type of Outlet. Products that are being offered to the public with some form of professional endorsement should be restricted to the type of stores that still try to retain the professional atmosphere of the pharmacist, since in such cases the endorsement is likely to be more effective.

It will usually be found that the independent retailer of the neighborhood type of store can handle the product better and is more willing to cooperate with the maker of a professionally endorsed product than are the chain stores. The druggist must be a pharmacist, and usually his clerk is one also, which accounts for the professional attitude, while most of the clerks in chain stores are not. The latter are sales people with little if any professional background. Therefore, the public is not inclined to consult or listen to the suggestions of these clerks when the purchase of the professional type of product is being considered.

Chapter 7

TRADE PRACTICES

This chapter tells about certain trade practices peculiar to the drug field. In most cases, they have become trade customs adopted and used by the majority of the firms in the industry. These practices have to do with distribution, transportation, shipping charges, taxes, discounts, guarantees, price maintenance, credit investigation, return of goods, and flexibility of sales policies. The practices to be followed are largely to be determined by the individual's ability and merchandising policy. The problem is to determine how and when to draw the line, when to follow trade practices, when to change to a plan in keeping with individual circumstances. With the general information of the common methods used at hand, it is then only a question of choice as to which plans to adopt. In any case, if a new practice is to be followed, careful research should precede it and it should be put into effect slowly since good will can be built only if what is proposed seems to be good and is generally accepted by those affected by it.

We have discussed in Chapter 6 the usual methods of selling a product through either the wholesaler or direct to the retailer and the problems these methods entail. Each of these methods has many supporters in the drug field. Choosing the method best suited for his needs enables the manufacturer to operate with the greatest efficiency, making it possible for him to quote low prices and thus earn large profits. There are other practices that need consideration and some of them are now presented.

DISTRIBUTION OF GOODS

Availability of Goods. The first consideration every manufacturer must have in mind is how to make his products most readily available to the dealers in the markets previously decided on as the best in which to sell.

The chief advantage of working through the wholesaler usually is that the manufacturer's products are thus made most easily available to the retailer. It is quite evident, though, that the wholesaler may not push a line as the manufacturer desires. He may also, because of financial conditions, keep his stock of a manufacturer's product at an unusually low point. Sometimes the wholesaler feels that his best interests are served when he controls his investments in certain types of products so that the one or two lines that he may think yield exceptional returns are favored.

From a sales standpoint, experience shows that it is best in most situations for the manufacturer to be able to ship directly to the retailer. This

is especially true when the former wishes to keep the retailer well supplied with a complete stock of his products at all times. Practically, however, this is not always advisable especially if shipments are made from the factory only. Consequently, many manufacturers find it more desirable to use the wholesaler. When this is the case, the manufacturer's products must be made easily accessible to his wholesalers if he expects them to handle his goods properly.

Within the last few years, many manufacturers have taken upon themselves the functions of the wholesaler. Manufacturers today drop-ship orders to retailers that years ago would have been altogether ignored. For this reason, the manufacturer finds it necessary to make his goods readily available to each trading area. This has compelled him to carry a stock of goods at strategic points throughout the country. Sometimes the method employed is that of establishing branch houses with complete stocks, or arranging with brokers to carry consigned stocks, or again taking advantage of the service of public warehouses; in only a few cases are shipments of everything ordered by the dealer made from the factory only.

In the battle for the business of the consumer, there are thousands of manufacturers fighting for the same dealer and public attention. No retailer is going to worry particularly about pushing any manufacturer's line, or even stocking the product, if he finds that he cannot have his orders filled promptly. The safety of any business, therefore, depends on the assurance of ample stocks within easy reach of customers at all times. Since 1929, many wholesalers have kept their stock down to a minimum, and frequently run out of merchandise while goods are enroute. Where this danger is acute and recurs frequently, manufacturers find that it is essential for them to maintain a warehouse stock at strategic points in their trading areas.

Warehouses as Shipping Agents. In the drug field, as in some other fields, a number of organizations have developed that have taken over the warehousing problem of the manufacturer. They offer one of the most economical methods of gaining wide accessibility for the manufacturer. These firms are to be found in cities like Chicago, Kansas City, Dallas, San Francisco, Los Angeles, and act as the wholesaler's branch warehouse: O'Callaghan in Los Angeles, California and the J. T. Erlan Company of San Francisco, California are typical. Complete information of these firms can be found in the advertising columns of trade papers like *Drug Trade News* or it can be secured direct from the publisher.

These firms receive large or carload shipments of goods, split them, and ship them to dealers in smaller lots for the manufacturer, make out the latter's invoices, and report regularly as to the condition of stock, thus enabling the manufacturer to give prompt delivery service to the customers

even at great distances from the factory. This service assures both the wholesaler and the retailer that goods can be delivered in quick time. Under this system, the manufacturer continues to check the credit, and gives instruction to the warehousemen as to what and how much to deliver to the manufacturer's customers, wholesalers or retailers.

Many of these warehouse firms are exceptionally efficient, and their charges are low, usually between 2 and 3 per cent of the net billing, a charge which takes care of all of the overhead operations. Billing is done more rapidly and results in quicker payment for the goods that are sold than under other systems. This cost is probably lower than it would be for most manufacturers of drug and cosmetic products if they maintained their own private warehouses. Besides giving prompt service, such shipping brokers, therefore, save the manufacturer money in shipping costs. For example, one manufacturer found his individual shipments from New York to points west of the Rockies costing approximately 11 per cent of sales in transportation expense alone. By shipping in carload lots to San Francisco, warehousing, and reshipping in small lots to points as far east as Salt Lake City, he was able to reduce shipping costs to 7 per cent.

Not only did the manufacturer enjoy a net saving of 4 per cent, but in addition he eliminated the possibility of lost sales because of a lack of stock conveniently available to customers distant from the home office. Another result was a more rapid turnover of stock, checks in payment were received for shipments almost as rapidly as notice of shipments, all of which made for a material increase of the net profit on the Pacific Coast business.

Many manufacturers may want to handle their own orders through their own direct representatives, thus assuring greater secrecy to their business. This procedure necessitates, however, the expense of employing a stockkeeper, a warehouseman, and perhaps a clerk wherever goods are stored, in addition to rent, insurance, and other expenses. Therefore, this method of operating may not ordinarily be as economical as that of using the services of the public warehousing companies, whose costs, because of large-scale operation, may be quite low.

These warehousemen or, rather, distributing agents also make available for the manufacturer a central headquarters to which salesmen's mail may be addressed, and from which plans of operation may be controlled, and, in fact, act as a branch office with only a fraction of the usual branch office expense.

In several cases a number of noncompeting firms have cooperated in the creation of warehouse stocks under the direct supervision of a representative selected by them. This practice has the advantages of using a public warehouse, and thus cutting expenses, while at the same time a measure of secrecy about the operations is maintained. However, the method does

have an important disadvantage and that is the problem of securing agreement on a diversity of problems—which does not always work out as desired. Usually, too, these firms need to be in similar but unrelated lines and it is not always possible to bring enough of such firms together with sufficient turnover for economical handling of their products.

Where the independent warehouse, however, takes care of this work and assumes the responsibility of doing it properly, each manufacturer is assured of receiving the type of service that he wants provided he is willing to pay the service charges.

Combining Distribution Channels. How to secure adequate distribution as represented by availability of merchandise to customer can be answered in a multiplicity of ways, and each manufacturer must study to discover the particular methods he wishes to utilize to gain his distribution.

One manufacturer may utilize the simplest and most direct way of getting to the retailer and thus to the consumer; others may find it advantageous to use not one but practically all of the methods available.

In determining the method to be adopted, the questions of expense, discounts, prices, and dealer's cooperation are important. That no one method can be considered as universal is indicated by the results of a survey of the distribution methods used by leaders of this field. Thirty-five concerns were questioned and the following channels were used either singly or in combinations as set up:

1. Manufacturer to department store, to consumer. Manufacturer to chain retailer, to consumer. Manufacturer to retailer, to consumer. Manufacturer to chain wholesaler, to dealer, to consumer. Manufacturer to wholesaler, to dealer, to consumer.

2. Manufacturer to manufacturer's representative, to wholesaler, to dealer, to consumer.

3. Manufacturer to consumer (direct by mail). Manufacturer to department store, to consumer. Manufacturer to chain retailer, to consumer. Manufacturer to retailer, to consumer. Manufacturer to branch, to wholesaler, to dealer, to consumer. Manufacturer to branch, to dealer, to consumer. Manufacturer to branch, to consumer. Manufacturer to chain wholesaler, to dealer, to consumer. Manufacturer to wholesaler, to dealer, to consumer.

4. Manufacturer to department store, to consumer. Manufacturer to chain retailer, to consumer. Manufacturer to wholesaler, to dealer, to consumer. Manufacturer to wholesaler, to service station, to consumer. Manufacturer to broker, to wholesaler, to dealer, to consumer.

5. Manufacturer to licensee, to dealer, to consumer. Manufacturer to wholesaler, to dealer, to consumer.

6. Manufacturer to department store, to consumer. Manufacturer to chain retailer, to consumer. Manufacturer to retailer, to consumer. Manufacturer to branch, to wholesaler, to dealer, to consumer. Manufacturer to branch, to dealer, to consumer. Manufacturer to wholesaler, to dealer, to consumer. Manufacturer to industrial, to consumer.

7. Manufacturer to wholesaler, to dealer, to consumer.

8. Manufacturer to department store, to consumer. Manufacturer to chain retailer, to consumer. Manufacturer to retailer, to consumer. Manufacturer to branch, to wholesaler, to dealer, to consumer. Manufacturer to branch, to dealer, to consumer. Manufacturer to wholesaler, to industrial consumer. Manufacturer to dealer, to industrial consumer.

Where a combination of channels is used care must be taken to differentiate between them either geographically or by product. One can hardly sell to both retailers and wholesalers in the same trading area and expect enthusiastic reception of a line of demarcation between accounts or a split-up of the territory.

Shipping Charges. The custom with regard to shipping costs as they affect drug manufacturers may be stated as follows: Freight and other transportation charges are usually prepaid by manufacturer to destination. In most cases these are prepaid, regardless of the size of the order. Those manufacturers who do not prepay all shipping charges make it a practice to prepay charges on orders of a specific minimum size. Frequently, the manufacturer who sells direct to the retailer will make some sort of restriction as to the size of order on which freight is prepaid. The manufacturer, however, who sells to the wholesaler prepays in nearly all cases, so that the wholesale prices will be the same in all places. The National Wholesalers' Drug Association has gone on record as favoring this practice.

The retail druggist expects, if the freight is prepaid, that the goods will be delivered to his door. He has no facilities to call at the freight offices for goods and because of this fact looks with disfavor on any merchandise that is not delivered to his store. For this reason, it is usually necessary for the manufacturer who sells direct to ship either by express or parcel post. In the larger cities, where freight services are used, he can get store delivery, but on less than carload shipments this is expensive. Special service companies, and more recently, some of the railroad companies, give store delivery at a small extra cost. The manufacturer should use a service of this type when shipping to retailers in the cities where it is available.

Generally, the manufacturer selects the cheapest transportation medium when shipping goods unless the retailer or wholesaler is paying the transportation, in which cases he follows their directions. It very frequently happens, however, that the chain retailers who have built up extensive traffic departments can guide the manufacturer in his selection of transportation

routes so that his shipping costs are held to a minimum. The traffic departments of the large chains constantly study freight classifications and best routes; they regularly prepare informative bulletins, which give the most economical routes for shipments. The manufacturer who is able to get these bulletins regularly will find them a comprehensive guide for use in all shipments to the same points reported on in the bulletin.

SOME FINANCIAL PRACTICES

Taxes. Another cost that manufacturers sometimes find it necessary to absorb is the excise tax. Under the 1932 and 1938 law the tax was 10 per cent on the manufacturer's sales price. Some manufacturers at first charged the retailer the full tax. Others raised the retail price of their products. This caused some products to sell at odd prices like 55¢ and $1.10. However, after a year or two practically all manufacturers absorbed the tax. When the 1938 law clarified the tax and defined who was the manufacturer, many cosmetic houses reduced their tax costs by buying the finished cosmetic in bulk from trade houses packaging it themselves, or if they manufactured themselves took advantage of the provisions in the 1938 law that permitted the deduction of freight, cash discount, selling, and advertising expense before figuring the tax. This cut the tax considerably and then these manufacturers absorbed the tax as merchandise cost. In the 1942 tax bill, the then existing tax was canceled and a retail tax of 10 per cent was made, which in 1944 was increased to 20 per cent, so that now, the manufacturers are not concerned with cosmetic luxury taxes.

Discounts.[1] Most drug manufacturers permit a cash discount of 2 per cent per payment within 10 days from date of invoice. Many wholesalers have attempted to stretch the ten-day discount basis by asking for the discount on a ten-day, end-of-month payment. They are perhaps justified in their attitude because 80 per cent of the retailers feel that this cash discount is deductible after they receive a statement on the first of the month; whether they buy from the wholesaler or direct from the manufacturer, they pay that way. This procedure has developed because retailers usually have no bookkeeping system of any kind, and wait for the wholesaler's statement before paying.

Those manufacturers who sell to wholesalers will find that there are comparatively few wholesalers who do not take the cash discount. The cash discount is so important a matter and is so vital to the profits of the wholesaler that it is essential for him to take his cash discount if he is really going to make a profit. Most wholesalers can make a net profit equal only to twice their cash discount, so that if they cannot take the cash discount, they

[1] Since Jan. 1st, 1947, two large pharmaceutical houses have announced revision of their discounts and "bonus goods" deals to simplify business practices. A complete revision of discounts may be under way.

lose 50 per cent of their net. A cash discount of 2 per cent for payment in 10 days is the equivalent of 36 per cent interest per annum on the investment, and the wholesaler needs that advantage.

Department stores demand discounts on an end-of-month basis. Some firms, if the terms are changed to this basis, calmly anticipate their payments so that the manufacturer pays the cash discount and in addition an interest charge for getting the money sooner. It is a strong firm, indeed, that can withstand the demands for the stretching of discounts. Some manufacturers have adopted a plan of payments as follows:

For invoices dated from the 1st to the 15th payable on the 20th of the month.

For invoices from the 16th to the 31st, on the 5th of the following month. This enables the wholesaler to collect his bills and cuts down the individual number of checks.

Payment on time would seem to be purely a matter of habit. If manufacturers insist, their customers will make payments in accordance with agreed terms. The return of a few checks to discount "chiselers" has a salutary effect in training clerks in customers' offices to be punctilious in making remittances where premiums in form of large cash discounts are given. Carelessness in not keeping after the customers for prompt payment is likely to result in the slowing up of remittances and in increased expense for interest.

Drop Shipments and Discounts. Manufacturers who sell direct to retailers receive orders from their representatives and make shipments as orders are received. Manufacturers also receive and accept orders from retailers that are turned over to the wholesaler to be filled from the wholesaler's stock. When a new line is introduced, and the wholesaler is disinclined to stock it before a demand for it is developed, manufacturers find that they are compelled to sell direct and to make what is termed "drop" shipments. A drop shipment is a shipment made for a wholesaler by the manufacturer direct to the retailer, the wholesaler accepting the credit responsibility. In cases of this kind, drop shipments are made only after the wholesaler has seen the order and checked it for credit. Usually drop shipments are made in the case of deals because deals are employed in effecting the introduction of new products that wholesalers may not want to add to their lines prior to the creation of a steady demand.

Regardless of the fact that the manufacturer's representative may have done all the work incident to selling the merchandise, the wholesaler expects the full discount on any shipment that is made to his customer. The wholesaler in these cases only assumes the credit risk and performs the necessary bookkeeping and collection service. Some manufacturers, because of the popularity of their products among consumers created by their advertising, are able to sell to wholesalers naming two discounts, one for

shipments from stock and the other for drop shipments. For example, one firm whose standard discount is 16⅔ per cent gives a discount of only 15 per cent on drop shipments where wholesalers do not carry full stock. The National Wholesalers' Drug Association has been against the practice, but lately they have been more inclined to condone it, since the custom of wholesalers giving up part of their discount has practically disappeared except with Mutuals.

Deals. Deals—the "baker's dozen principle" (see Chapter 10)—are more prevalent in the drug field than in any other industry catering to the retailer. Whether or not the long-run effect is good is still a matter of dispute. Because of competition, deals were becoming too costly and the tendency of late has been to discontinue such deals as much and as quickly as possible. O.P.A. regulations made deals a temporary (90-day) affair only. This fact cut down deals during the operation of O.P.A.—but with the elimination of controls, deals will undoubtedly be introduced again as a sales stimulus. See footnote on p. 122.

Price Maintenance. The drug field, more than any other line of branded merchandise, has been faced with the problem of price cutting. Most firms, dealers and manufacturers, now favor price maintenance. Whether a manufacturer considers it worth while to make a legitimate attempt to maintain price or not is a question that can be determined only after years of experience that reveal its possible profitableness. It is true, however, that the following may be safely accepted as a basic fact: the question of price maintenance does not begin to become annoying until a product has become popular. For this reason, in the first few years the manufacturer's real worries about price maintenance are of comparatively little moment, as price cutting of the product and its use as a "loss leader" mean little. Price maintenance is now the least of the druggist's problems, since recent legislation permits it, and it is now being accepted by most manufacturers in the drug field. In this connection see Chapter 17.

Credit Investigation. Most National Wholesalers' Drug Association members have been established for so long that credit information about them is very easily obtainable. The question of extending credit to retailers has always been important. Manufacturers, because of the tight credit conditions such as prevail in a depression, found it almost impossible to get a good distribution of their product through wholesalers in the early 30's for the reason that the wholesalers were trying, as much as possible, to curtail the purchases of their dealer customers so as to force them to keep their obligations within reasonable limits. Wholesalers not only curtail their customers' purchases of well-known products but they also restrict severely the purchase of new items.

The wholesaler who is giving some of his dealers only limited credit and whose profit depends largely upon the products he is pushing is more inclined to allow this credit only on orders for his own favorites, and curtails almost completely the shipment of new products that will increase his dealer's indebtedness, and that may not move off the shelves quickly. Such new items make it hard for the dealer to pay his bills promptly; consequently, the wholesaler should not be too severely censured for his attitude.

The distribution censuses show that a large percentage of the purchases of the drug retailers is made through wholesalers. The remainder is sold direct by manufacturers who have large lines of merchandise and who find that wholesalers are not in a position to serve those lines completely. Large firms like Parke, Davis Company, Sharpe & Dohme, Colgate, E. R. Squibb and Company, have extensive lines that in large part they sell direct to the retailers. The lack of extension of credit is sufficiently important to warrant the statement that even more manufacturers or manufacturers of new products may be forced to sell direct who otherwise would retain the wholesaler in his present position as a distributor. In this connection it should be pointed out that manufacturers can no more afford to extend credit to poor risks than can wholesalers so that a manufacturer should not succumb to the temptation too easily. Before credit is extended to retailers thorough examination of the risk should be made. The wholesaler is, as a rule, much closer to the retailer than any manufacturer and consequently knows the situation in its true colors. If the wholesaler is not willing to risk extending credit the manufacturer may be foolish to do so—the reason therefore should be great. However, recent improvement in the financial position of most druggists has made it easier to ship direct, without high credit risks. One credit manager, over a period of 25 years, has adopted the policy of checking out to any retailer a \$25 shipment and during that time has kept credit losses down to less than ½ of 1 per cent. However, it is not recommended that initial orders be too small, because, strange as it may seem, smaller bills seem to be harder to collect than large ones.

As a result of the increase in business per drug store since 1939, the probabilities are both that larger orders can be placed by stores and that a better line of credit can be granted. The wartime study referred to in Chapter 4 estimates average chain drug store sales at \$159,546, as against \$97,402 in 1939 and independent drug store averages at \$38,853 as against \$21,611 in 1939. If anything closely approaching this can be maintained during the postwar period many more manufacturers will be encouraged to sell direct than before. It will be desirable then to know more about the reasons for failures than ever before.

The need of exercising care in granting credit is borne out each time a failure occurs. In all too many cases credit has been granted on an insufficient base. Manufacturers and wholesalers, particularly in the drug field, seem to be lax in their credit methods. The frequently high caliber of the men in this field, plus a belief that if a man has been in business a number of years he is probably safe as a credit risk, has led to disaster, especially since 1928. Manufacturers and wholesalers may find it necessary, in each case, to go by, in addition to hunch, a certified balance sheet and a detailed profit and loss statement, as well as a study of physical factors about the business such as location, character and ability of owner, adequate capital and records, store personnel, and appearance of store.

Several careful studies have been made of causes of failure of businessmen. The one conducted by the Department of Commerce among St. Louis druggists revealed the following as the causes: half of those failing attributed it to lack of capital; 25 of the 30 had had previous experience in drug store business but only two as owners; 20 stated their rents were too high; 16 thought their stores were poorly located; 46 creditors stated that in their opinion 22 of the failures were incompetent; 5 of the failures were thought to be dishonest; others had bad debt losses many times higher than the average; records kept were inadequate. In addition to these there were other causes such as the depression, neighborhood changes, competition, and illness.

In the study of 612 failures in New Jersey, also reported by the Department of Commerce, poor business methods and practices were given first place as a cause of failure, then followed the depression, decline in real estate values, and, as minor causes, speculation outside of business, gambling, dishonesty, illness, and personal extravagance.

In still another study of 570 commercial bankruptcies, reported on by the Department of Commerce, the same melancholy tale is told—inefficient management, unwise use and extension of credit, adverse domestic and personal factors, and dishonesty and fraud.

The fact that credit is so easy to secure, despite huge annual losses from business failures, suggests that creditors in their desire to secure a larger volume of business encourage debtors to accept credit when the reverse should be the procedure. It may be that small retail druggists present a special problem and that much in the way of reports of condition and accounting methods cannot be expected.

Insistence on adequate record keeping and the making of periodical reports would probably work out to the benefit of the small dealer as well. If the dealer is too small or incompetent and cannot keep records and make reports, or if an account becomes chronically slow pay, credit should be refused. If reports can be secured then the question of norms arises. On

what basis shall we judge while dealing with our customers? Experience will probably yield the best results. What do unsuccessful and successful firms' records reveal? The thorough study of the failures among drug stores made in the St. Louis survey yields some excellent materials in these respects, as shown by the following tables: [2]

TABLE 15. SALES AND OVERHEAD EXPENSES OF 29 FAILED DRUG STORES IN ST. LOUIS, 1925–1931

Store No.	Net sales	Overhead							
		Total	Per cent of net sales	Rent		All salaries		All other overhead	
				Total	Per cent of net sales	Total	Per cent of net sales	Total	Per cent of net sales
1	$5,400	$4,044	74.9	$1,320	24.4	$2,196	40.7	$528	9.8
2	17,000	6,216	36.6	1,200	7.1	4,224	24.8	792	4.7
3	12,600	4,080	32.4	1,500	11.9	1,920	15.2	660	5.2
4	68,000	14,568	21.4	6,800	10.0	6,000	8.8	1,368	2.0
5	8,400	1,752	20.9	1,020	12.1	(1)	....	732	8.7
6	25,200	7,404	29.4	1,284	5.1	4,200	16.7	1,920	7.6
7	6,720	3,276	48.8	840	12.5	2,160	32.1	276	4.1
8	14,000	8,364	59.7	1,200	8.6	4,800	34.3	2,364	16.9
9	8,400	2,388	28.4	720	8.6	1,152	13.7	516	6.1
10	10,800	3,288	30.4	900	8.3	1,920	17.8	468	4.3
11	10,800	3,732	34.6	900	8.3	2,400	22.3	432	4.0
12	8,400	3,840	45.7	1,260	15.0	1,200	14.3	1,380	16.4
13	50,000	21,600	43.2	2,700	5.4	11,880	23.8	7,020	14.0
14	5,040	4,260	84.5	1,800	35.7	2,136	42.4	324	6.4
15	16,000	3,900	24.4	1,080	6.8	2,280	14.2	540	3.7
16	7,000	2,772	39.6	600	8.6	1,800	25.7	372	5.3
17	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
18	8,640	2,832	32.8	696	8.1	1,620	18.8	516	6.0
19	27,600	12,360	44.8	3,600	13.0	7,464	27.0	1,296	4.7
20	13,440	9,660	71.9	1,800	13.4	7,080	52.7	780	5.8
21	36,000	14,400	40.0	3,600	10.0	9,480	26.3	1,320	3.7
22	36,000	10,788	30.0	3,300	9.2	3,520	15.3	1,968	5.5
23	6,800	4,464	65.6	1,620	23.8	2,316	34.1	528	7.8
24	10,200	4,260	41.8	1,200	11.8	2,400	23.5	660	6.5
25	10,000	3,804	38.0	1,500	15.0	1,728	17.3	576	5.7
26	13,200	12,960	98.2	4,800	36.4	7,104	53.8	1,056	8.0
27	30,240	12,852	42.5	3,000	9.9	8,460	28.0	1,392	4.6
28	10,000	6,336	63.4	1,080	10.8	3,600	36.0	1,656	16.7
29	8,400	3,468	41.3	720	8.6	2,280	27.1	468	5.6
30	48,000	10,704	22.3	4,200	8.8	4,680	9.8	1,624	3.4
Total	532,280	204,372	....	56,240	....	114,000	....	33,532	....
Average	18,354	7,047	38.4	1,939	10.6	[3] 4,071	21.4	1,156	6.3

[1] Owner had no employees and stated he did not pay himself salary.
[2] Data not obtainable.
[3] Average for 28 stores. Sales for store No. 5, $8,400, were deducted from total sales, $532,280, to determine average.

In the cases of most of the failures it will be noticed that overhead is a large percentage of sales and, of the total, rent and other overhead together constitute a large share of the overhead. Such percentages are, as they have always been, symptomatic, for the most part, of poor business methods, incompetency, and poor location. In a quite different study of

[2] *Causes of Failures Among Drug Stores*, Dept. of Commerce, Washington, D. C., pp. 12–14.

TABLE 16. SALES AND OVERHEAD EXPENSES OF 40 ACTIVE DRUG STORES IN ST. LOUIS DURING 1930 *

Store number	Net sales	Overhead							
		Total	Per cent of net sales	Rent		All salaries		All other overhead	
				Total	Per cent of net sales	Total	Per cent of net sales	Total	Per cent of net sales
1	$97,095	$27,791	28.6	$3,600	3.7	$17,834	18.4	$6,357	6.5
2	96,117	28,093	29.2	2,400	2.5	20,030	20.8	5,663	5.9
3	77,974	20,559	26.4	1,725	2.2	13,211	16.9	5,623	7.2
4	77,244	22,744	29.4	3,000	3.9	14,500	18.8	5,244	6.8
5	59,562	17,719	29.7	3,775	6.3	11,432	19.2	2,512	4.2
6	50,217	16,306	32.5	1,605	3.2	10,441	20.8	4,260	8.5
7	43,139	11,263	26.1	2,400	5.6	6,902	16.0	1,961	4.5
8	39,489	12,700	32.2	2,700	6.8	8,0[illegible]	20.5	1,908	4.8
9	38,774	11,445	29.5	2,100	5.4	7,234	18.6	2,111	5.4
10	38,454	9,083	23.6	1,620	4.2	4,955	12.9	2,508	6.5
11	37,593	10,249	27.3	2,400	6.4	5,081	13.5	2,768	7.4
12	36,536	9,002	24.6	900	2.5	5,498	15.0	2,604	7.1
13	34,657	9,129	26.3	945	2.7	6,350	18.3	1,834	5.3
14	34,638	8,637	24.9	2,000	5.8	5,120	14.8	1,517	4.4
15	34,543	8,989	26.0	1,704	4.9	5,272	15.3	2,013	5.8
16	34,052	10,210	30.0	3,162	9.3	5,527	16.2	1,521	4.5
17	32,888	9,613	29.2	1,800	5.5	5,587	17.0	2,226	6.8
18	32,027	10,063	31.4	1,020	3.2	7,149	22.3	1,894	5.9
19	30,986	7,964	25.7	1,440	4.6	5,024	16.2	1,500	4.8
20	30,832	7,379	23.9	1,800	5.8	4,355	14.1	1,224	4.0
21	30.623	6,816	22.3	1,080	3.5	4,024	13.1	1,712	5.6
22	29,633	8,730	29.5	1,500	5.1	6,078	20.5	1,152	3.9
23	26,079	8,510	32.6	1,500	5.7	4,895	18.8	2,115	8.1
24	26,022	7,643	29.4	1,159	4.5	5,276	20.3	1,208	4.6
25	25,828	10,550	40.8	1,763	6.8	7,171	27.8	1,616	6.2
26	24,831	8,093	32.6	1,380	5.6	5,424	21.8	1,289	5.2
27	24,577	7,773	31.6	1,500	6.1	5,051	20.6	1,222	5.0
28	23,884	7,789	32.6	1,080	4.5	5,141	21.5	1,568	6.6
29	23,755	6,742	28.4	1,290	5.4	3,777	15.9	1,675	7.5
30	23,355	8,051	34.5	954	4.1	5,858	25.1	1,239	5.3
31	22,432	7,389	32.9	1,500	6.7	4,613	20.6	1,276	5.7
32	21,664	7,565	34.9	1,200	5.5	4,911	22.7	1,454	6.7
33	20,885	6,904	33.1	900	4.3	5,219	25.0	785	3.8
34	20,820	6,154	29.6	1,260	6.1	4,020	19.3	874	4.2
35	19,996	7,361	36.8	1,200	6.0	4,756	23.8	1,405	7.0
36	17,996	4,682	26.0	780	4.3	2,970	16.5	932	5.5
37	17,796	5,198	29.2	540	3.0	3,674	20.6	984	5.5
38	17,633	4,660	26.4	900	5.1	2,800	15.9	960	5.4
39	17,032	4.302	25.3	720	4.2	2,384	14.0	1,198	7.0
40	8,952	3,641	40.7	875	9.8	1,663	18.6	1,103	12.3
Total	1,400,610	407,491	....	65,177	....	259,299	....	83,015	....
Average	35,015	10,187	29.1	1,629	4.7	6,482	18.5	2,075	5.9

* Data secured from Cinchona Club, St. Louis, Mo.

drug store closings made by Dun and Bradstreet, Inc., for the year 1943, high rent and too large withdrawals by the owners characterized the closings with loss to creditors. Where the variation from the percentages shown by the active drug stores is substantial then caution is desirable and the need of investigation would seem to be apparent. Since no comparable study to that of the 1926 St. Louis Survey has been made it would seem that another should be made soon showing sales and overhead expenses of both successful and unsuccessful stores.

Collection by Salesmen. Very often the manufacturer will find if he is selling direct to the retailer that his money is not coming in as rapidly as it ought to because his salesmen are not calling on the retailer frequently enough. The retailer who buys direct from the manufacturer frequently wants to await the salesman's call before he makes payment for his purchases. He has grown out of the habit of mailing his check, and if he has any slow-moving goods or a claim, he has a good reason for waiting. The wise manufacturer, therefore, will have his salesmen arrange their schedule so as to get to the dealers in time to make collection of money due, as well as to sell another bill of goods.

Public Guarantee. Most consumers have become educated to buy goods with an implied guarantee of complete satisfaction. Whereas this guarantee is very seldom used, still every manufacturer must be prepared to stand behind his product and to make good any of the special claims that may be made upon the retailer by the consumer. With toilet articles particularly there is the possibility of being faced with both legitimate and illegitimate law suits growing out of real or fancied injuries from a product; the injuries arise from the sale of impure products, broken bits of glass in products, and other contingencies of this sort.

The manufacturer should insure himself against suits of this kind and should be prepared to back up his dealer against any claims of dissatisfaction from the public. He should be prepared, also, to fight the claims of personal injury when made by unscrupulous people. During a depression, claims of this type usually increase, and now many of the large retail buyers demand specific guarantees of protection against such claims. Department stores also demand this same protection from their demonstration lines.

RETURN GOODS

Return goods presents a problem in merchandising that is particularly serious in the drug market and that seems to be far from solution in any field. Some of the problem grows out of dishonest or poor merchandising on the part of the seller.

In the drug field the problem is complicated because the return goods includes not only the old and unsalable merchandise resulting from overstocking, but also imperfect merchandise, deteriorated goods, materials that are shopworn, and goods left on the shelf by reason of changes of packages and style. There is no uniform method in the industry of handling return goods. Some companies accept merchandise not more than two years old and unsalable. Some firms will accept no returns of any kind other than imperfect goods shipped out in error.

When goods are returned the manufacturer usually does not pay the

transportation charges. Many firms expect both the retailer and the wholesaler to request permission to return merchandise and to give very definite reasons for the return. Very often retail dealers and even wholesalers return merchandise without permission. This is generally objected to and manufacturers are becoming more inclined to refuse to issue credits for returns of this kind.

In order to reduce return goods as much as possible, a number of manufacturers got together and published a joint advertisement to the trade on the question of return goods. A goodly portion of the merchandise was holiday goods, and many dealers would be inclined, if their season was not successful, to return goods without authority.

The best thing to do apparently with respect to return goods is to establish terms and conditions of sale and state them in the contract of sale in a clear, unequivocal manner, and then to follow the policy of adhering strictly to them. It is very difficult for the salesman to refute the many reasons that a dealer may give him for returning merchandise for credit, especially if the salesman has not stated facts accurately in his sales talk or has oversold the dealer. The manufacturer develops policies that are designed to build good will and generally they succeed so that when the policies are adequately explained they are usually accepted by businessmen. Occasionally a dealer bears ill will against a manufacturer if his claim, whether justified or otherwise, is not accepted. As a matter of fact, the more unjust his claim for return, the greater will be his grievance. If the rough study reveals the claim as unjust it should not be allowed, while a just claim should be allowed and settled promptly. It is possible to go to one extreme or the other—allow no claims or allow all claims. In the first case a manufacturer should be sure that he holds a monopoly on goods that the dealer must stock; in the other case he should make provision in the price to cover the percentage of returns as revealed by a cost study of sales.

The following rules governing return of goods have been suggested for adoption by a Committee of the Perfumery Importers Association after numerous conferences with the trade, and with various members of the association:

1. No merchandise is returnable except with the consent of the one from whom it is bought.

2. We hold ourselves responsible for all damages to our merchandise due to defect in manufacture. We are not responsible for damage caused after merchandise leaves our possession or while it is in the hands of any carrier company.

3. Merchandise returned to us improperly or carelessly packed cannot be credited, nor can merchandise be returned for credit or exchange on

account of damage occurring due to mishandling or faulty handling in stock.

4. Goods held over a year in stock are not returnable for credit or exchange under any circumstances.

It is thought that the above rules present a standard of fair dealing regarding returned merchandise, and should be welcomed by both the retailers and manufacturers. The subject of returns was treated in the perfumery code and redressing charges were specified, but still the return goods problem remains to be solved. It is an individual problem for each manufacturer.

Wholesaler's Returns. From time to time, usually at the end of every year or just after inventory, manufacturers will find that wholesalers will send remaining goods back if sales have been poor. The larger drug chains also follow this practice. Whether or not the manufacturer should make of himself a victim of carelessness and overbuying on the part of his customers is a matter for consideration. The question he needs to answer is, what does it cost? If it leads him into the red he will find it necessary to refuse. It would seem to be better to go out of business because of lack of business than to be a philanthropist who pays for other men's mistakes. The wholesaler who is compelled to take goods back from his retailer feels that the manufacturer should do as much for him, and this is a matter for discussion. However, some of the attempts to return goods are unfair. The greatest epidemic of return goods grew out of the consolidation of chain stores a few years back, when the accumulation of years of buying by many careless independent retailers was thrown back at manufacturers for credit. Fortunately for the health of the business community, most of the manufacturers refused to allow credit for such returns. The same stunt was tried later in a large wholesalers' consolidation, but many manufacturers refused to hold the bag for these concerns and so refused returns. Many manufacturers have now adopted the policy of allowing only salvage value for returns that are made for obsolescence or because goods are shopworn.

FLEXIBILITY OF SALES POLICIES

Sales policies, firm as one should be in upholding them, need to be characterized by flexibility. They should be changed as occasion requires. The credit situation is influencing changes in policy along with other matters. Where at one time credit conditions made it inadvisable to open up too many direct accounts, now although credit conditions are good, difficulties in reaching many dealers have increased the importance of the wholesaler. Formerly, wholesalers had so many items to sell and so much

merchandise, they did not have time to do much actual selling on many items. Recently with many items scarce they were more inclined to concentrate on selling the goods that they could get. The same condition in the industry has effects on manufacturers, depending entirely on circumstances surrounding each line. This change in selling policies has been found necessary also because of the change in the attitude toward price maintenance.

There has been a general suspicion, very well founded at times, that many firms were receiving special prices from manufacturers and thus were able to undercut the general price range. This impression became so widespread that, wrong or right, many firms have suffered loss of good will because of it. Some of the largest manufacturers of drug products have found it necessary to set minimum prices, give their greatest discounts on purchases as low as $30.00, and allow no greater discount beyond the minimum figure. This is a policy that they have adopted in order to assure the bulk of retailers of the lowest possible price, and, as far as possible, to offset possible damage to good will that might hurt sales. The greatest controversy and discussion in the preparation of the old Retail Drug Code centered around fair retail prices. Although temporary prices were fixed on the basis of cost, hardly anyone was satisfied, and the whole problem was thrown back for solution. However, hundreds of firms began working under minimum resale plans, regardless of what might finally develop as the result of action and study which grew out of the consideration of codes under the National Recovery Act. After the N.R.A. was invalidated, the industry fell back to the previous practice of special prices and concessions to large purchasers. This condition existed for several years, until the passage of the Robinson-Patman Bill in 1937. This now made it possible for manufacturers to discontinue special concessions to large operators, not because they wanted to particularly but because they were compelled to.

The feeling of unfair tactics with respect to prices is prevalent against drug manufacturers, but this is not the case in the cosmetic industry, where there is a somewhat different situation. The methods employed by manufacturers to gain retailer and wholesaler good will are covered completely in the chapter "Methods of Obtaining Dealer Cooperation."

Early in 1934, Coty Incorporated introduced an entirely different method of selling. They eliminated wholesalers entirely and confined their merchandise to sales agents or retailers on a consignment basis. They hoped by this method to stabilize prices and thus protect their prestige and their manufacturer's investment in the business during the chaotic conditions of the depression. With price cutting the principal factor, the consignment distribution plan has been adopted not only by them but many others. This consignment sale method, in order to keep retail prices at a

fair level, was soon superseded by setting minimum prices under the state fair trade laws, passed under the authorization of the Miller-Tydings Law.

These are only a few of the changes that have taken place in the methods of dealer approach. Because of the increased cost of selling, the difficulty in reaching outlets, and the shortage of manpower, manufacturers are finding it to their advantage to curtail their selling efforts in the places that do not pay. There is a tendency to cut fixed charges, reduce expenses, and substitute wholesaler's selling service as far as possible.

Chapter 8

ORGANIZATION OF MARKETING DIVISION

In this chapter there is outlined a possible organization of the marketing division for a concern making and selling drug store products. The organization proposed follows the line-and-staff type now used successfully by some outstanding concerns. This type may be followed by small concerns as well as large. In the smaller business one man may have several duties to perform as contrasted with the delegation of one or more men to a single activity in a larger concern. Here also one will find suggestions for building a sales force either by hired salesmen or independent sales agents and for securing wholesaler and newspaper sales cooperation, sales practices that are followed to make certain difficult types of sales, the equipment of the salesmen, the use of sales contests and the size of territory and number of calls a day salesmen should make. It is finally indicated that one should have a flexible attitude of mind toward sales policies. To be sure careful study should precede adoption of sales policies and one should be firm in conforming to them; nevertheless one should be ready to change them as conditions and study reveal the necessity thereof.

One of the first questions to consider when one starts to sell is: "What type of marketing organization shall be developed?" The ideal organization would be one of the line-and-staff type. This would mean an organization headed by a chief executive and departmentalized into personal selling, advertising, and sales promotion departments. The personal sales division would have control of all field salesmen and branches from which the salesmen would operate. They would be charged with executing the instructions given them by the officer in charge of marketing. The advertising department would execute all instructions given them in connection with advertising decided upon. The sales promotion or staff division would be charged with the duties of selecting and training the personnel of the marketing division, the carrying on of all cost studies to discover the profitableness of the various types of business handled by the manufacturer and the necessary research to discover markets and the various ways of reaching them.

PERSONAL SELLING DEPARTMENT

In the sale of drug products the most important thing is to stock the dealer first, and to do this successfully a good sales personnel is necessary. Questions such as these then arise: "What types of men and women are most successful as sales personnel?" "Where are they to be found?"

"How are they to be selected, trained, allocated to territories, equipped, and compensated to secure the best results?"

In the drug field the owner of the business frequently heads the marketing department, particularly if he has had experience in selling and likes that kind of work. Otherwise he will select someone who has had much experience selling similar products and who has a wide acquaintance among buyers of drug store products; in short, one who has been a producer of sales.

The selection of salesmen is a personnel problem, the solution of which should be based entirely on the recorded experience of the manufacturer and others. Men are of different degrees of ability and for the variety of products and types of customers in the drug and cosmetic fields men of varying abilities are required for successful selling.

Types of Salesmen Needed. The line or item that is to be sold to the neighborhood retail druggist is best handled by a plugger, one who will be sure to cover many outlets and make sales not so much by brilliance of ability as by persistence of effort. Experience shows that such an individual will usually produce more stable and efficient sales results than persons of other types. However, when sales are to be made to the high-spot retail outlets, department stores or drug chains, then the manufacturer requires a more brilliant, highly polished salesman. Here is needed an individual who is of sufficient intelligence and experience to meet the up-to-the-minute buyer on his own ground, and who is able to explain efficiently and intelligently his product both from the merchandising and advertising angles, and who is able to convince his prospects of the advisability of purchasing his products. This man should be able to give sales talks to store clerks and managers, and even spend part of his time training them in the details of his line.

Turnover of Salesmen. The requirements for each sales job should be worked out by a job analysis, and then a method of selection decided upon which reveals the qualities required for each job as disclosed by the study. However, this is not the usual procedure; therefore most manufacturers find their turnover of salesmen high because of improper selection of salesmen. Sometimes the salesman does not make good because he finds the type of selling beyond his experience, or because he is a floater who never expects to do more than draw a salary for a few weeks, or as long as he can hold the job, or because one of the brilliant creative types of individuals has been selected for a plugger's job.

Manufacturers in a variety of lines customarily find a turnover among the sales force of 80 per cent annually in individual cases, while for an industry as a whole the turnover has run as high as 40 per cent. The cost of hiring, training, and firing in such a case is large enough to add mate-

rially to the cost of selling. Such costs add nothing to the value of the product and cut down profits. Selection by "hunch" and improper training are the two most important factors in keeping up such costs. The substitution of tests for "hunch" and of proper training for no training should help materially in reducing turnover and at the same time secure better sales results.

Where to Look for Salesmen. Recruits for the sales force are to be found in (1) the concerns in these industries. Office boys and others might well be selected, with training and eventual advancement to the sales force in mind. Some of the stock or shipping clerks who give promise of fitting into selling might be observed and given opportunity to sell at the right time. (2) Clerks in drug stores might occasionally be selected on the recommendation of successful salesmen who have observed them. (3) Graduates of schools of pharmacy, and of liberal arts colleges who have specialized in chemistry, and of schools of business who have specialized in salesmanship are other possible recruits. (4) Casual applicants who have worked in these fields or who believe they would be successful in them should receive careful consideration, since, at times, such applicants, given proper training, may become very successful salesmen.

Allocation of Salesmen's Territories. In arriving at the size of the territories to be allocated to salesmen manufacturers should consider the available transportation, topographical difficulties, and the frequency with which calls should be made.

Number of Calls a Day by Salesman. A salesman working a city makes, as a rule, about 20 calls a day. This does not mean, however, that he will be able to tell his story to 20 dealers. The usual percentage of outs is between 20 and 25 per cent, so he will find only 15 or 16 dealers in when he calls. He can, therefore, expect to deliver at most only 15 or 16 sales talks. Very often, the dealer, thinking of a partially prepared prescription in the back room or some other problem, may not even take the trouble to give the salesman the time he needs. Because of rebuffs, lack of interest, and busy stores, the complete sales story cannot be delivered to more than possibly 12 prospective accounts a day. The manufacturer, therefore, should realize that a 100 per cent job on the part of the salesman may be 50 per cent of his calls, or putting it another way, the salesman should call on roughly twice as many dealers as the number to whom he expects to tell his sales story.

It has been found from practice that where the salesman makes calls, he is likely to get a larger order than if the dealer is left to his own devices about ordering, and the more calls he makes the more orders he is likely to get; in fact he is likely to get orders greater than the proportion of extra

calls. In these cases, unless special deals are being offered by wholesalers' men, deal-size orders are not likely to materialize.

In the planning of sales operation, therefore, the ratio and timing of the repeat call is quite important, to obtain the greatest efficiency from each call made. Remember, too, the net number of effective calls that can be made in a week and compare this figure with the cost of keeping a man in the field. This will give you an average cost per visit of between 75¢ to $1.25. If the sales possibilities of any dealer do not warrant the cost, he might as well be left out of the salesman's visiting book.

If the trade must be visited every 90 days and only twelve sales talks can be given in one day then a territory should not exceed 750 dealers (stores). This will have to be reduced when the salesman spends considerable time in travel. When a salesman covers the same territory for a period of time, he becomes familiar with the dealers' habits. He should make careful record of these habits. For instance, the time of the day that every dealer is in the store should be known to the salesman in the territory. Some owners open the store in the morning but are not there in the afternoon. Others are in only in the afternoon. Some may take Thursday off; some another day of the week. The salesman's knowledge of such habits of dealers helps him to cut down on the number of wasted calls.

Minor and Major Salesmen. Some firms selling many lines have special territorial arrangements. Firms with major products will permit a salesman to have an exclusive territory for such a product only. The minor products are delegated to different men operating in the same territory. Some firms employ junior salesmen for special detail or missionary work, under the control of the regular salesmen in a specific territory, counting this as part of the training process. Other firms give the best territories or customers to the senior salesmen and the poorest to junior salesmen. In some cases the sales manager regularly calls on the wholesalers and other important or so-called "house accounts"—drug chains and firms of that kind; these are not then handled by salesmen, or other selling organizations, but only by executives from the home office.

Other Methods of Selling. It is not always necessary for the manufacturer to build or to depend entirely on his own sales force. The sales agent can very often take care of a manufacturer's selling for him, sometimes very efficiently, and where he can be used, the cost of selling is usually low.

Manufacturer's Sales Agency. The sales agency is, as a rule, an independent sales organization headed by a former drug product salesman who employs three, four, or more men who together take care of and handle the sales of from three to ten or more nonconflicting lines in a particular territory. The sales agent is paid a commission ranging from 10 to 20 per cent

of the total net sales arising in his territory. The sales agent is sometimes permitted a drawing account to help defray advances to his men before commissions are paid. There is some advantage to the manufacturer in employing a sales agent. First, he does not have to build a sales force for the territories covered by the sales agency. The sales agency assumes this responsibility and offers to the manufacturer a tried and tested group of sales people. The manufacturer receives, in this way, reasonably good coverage of a territory in a short period of time.

Second, the sales agent, because he is handling four or five established lines in the territory, very frequently gets easier acceptance from the retailer on a new and additional line than a salesman who comes with a single proposition or who goes to a dealer who does not know the salesman very well, or who has little or no knowledge of the manufacturer.

Working through a sales agency, however, has its disadvantages. The sales agent must distribute time, thought, and energy over several lines. Frequently, he favors the line of least resistance. He will push for sales on those products that appear to him to be the easiest to sell, and these may not be the most profitable items for the producer. Furthermore, the sales agent often makes promises that cannot be fulfilled, and therefore gets a manufacturer into trouble.

The question of using a sales agent can be settled only by discovering the cost of each possible method, and using a sales agent if that method is less costly than others. Much of our experience with the sales agencies indicates that they are best utilized in those territories where customers are widely scattered because of sparse population. In such cases the cost is no greater than the commission paid on the business secured. The sales agency, however, can be used also in large centers, especially when the agency is headed by an individual who is successful in selling and who gives very close personal attention to the work of his employees. One of the best sales organizations, through which the Crystal Corporation, makers of Z.B.T. Baby and Outdoor Girl Face Powders, did business, was a small agency in a large eastern city. This despite the fact that in most territories individual salesmen were employed. For a period of years this organization showed a consistent sales increase in a difficult territory and with a difficult line. It had a high turnover in men, but the head of the organization himself kept active contact with wholesalers and the larger retail accounts and so offset, in a measure, the effects of the turnover.

Experience suggests that the best results will ordinarily be obtained from a manufacturer's own sales force when the members thereof have been carefully selected and properly trained, but in cases where a wide territory must be covered and the line consists of few numbers, and the unit sale is small, a sales agency arrangement is the cheapest way of reaching the mar-

ket. Sales agencies usually give quicker and more frequent coverage and their constant repeat calls are more beneficial than the infrequent calls of a manufacturer who has his own salesman, and who cannot afford to make calls more frequently than once in 60 days. This is particularly true of a new single specialty, on which there may be considerable initial resistance. The sales agent who calls at least once every 30 days, and sometimes more often, gives the manufacturer the opportunity of more rapid distribution, after advertising has started, than would the manufacturer's own salesman.

Selection of Sales Agency. The names of reputable sales agencies can be obtained through friends or trade publications. The character and ability of the prospective sales agency should be investigated and the number and character of the lines it already represents. Select an agency with few lines that require a great deal of promotional work. It is our recommendation that ordinarily no sales agent be employed who carries more than five or six lines, and no more than two of these at a time should be new lines. No manufacturer can possibly be sure that the sales agency will give the intensive coverage and selling effort that are required, if the sales agents are compelled to put on more than two drives at a time. Many dealers object to giving one man too much of their time or business; consequently if the agent carries too many lines the dealer, after he has bought from two or three lines, may withhold orders on the rest to give them to the salesman of some other concern.

The manufacturer must keep in contact with all his sales representatives—his own, the sales agents; and the wholesalers'—and should, at regular intervals, visit both the sales offices and the men in the field. This can be done efficaciously by regularly visiting the branch offices and sales agencies, holding meetings with their men, and going around to customers with some of the salesmen. If the manufacturer has a sales manager, then he should have his sales manager work in the field with as many of the representatives as possible, assisting them in making sales and keeping in close touch with them as well as the wholesalers' men. Ordinarily sales managers should spend considerably more time in the field than at their desks.

Frequently, sales agents will work with wholesalers' salesmen to make the latter more effective, although this type of service is usually regarded as part of the work of the individual salesmen of the manufacturers. Sometimes sales agencies have difficulty getting wholesalers' cooperation. In those cases special formulas may be worked out to do the job, as the offer of some kind of premium for the cooperation asked.

Wholesaler's Selling Cooperation. Most manufacturers find it possible to secure wholesaler's cooperation to a greater or less degree. Some wholesalers, when they are paid for special effort, will give it with satisfactory results. However, despite this fact, and despite the fact that wholesalers'

salesmen are anxious for any extra compensation they can get, manufacturers will find it advisable to have sales representatives of their own in the field, especially if calling on druggists only. Many manufacturers make it a part of their representative's activities not only to see and talk with the wholesalers' men at meetings but also to work with the individual men for a period of time in the field. This is particularly true in those cases where some new or special deal is agreed upon. In this way, on account of the personal contact, wholesalers' men are made more conscious of the drives of the manufacturer and are likely to give the product special consideration and effort, at least for a short time after the contract with a member of the manufacturer's organization.

Some manufacturers confine their entire selling effort to the wholesaler. In some cases this has resulted in the desired distribution. However, before adopting this channel, investigation should be made to discover the possibility of obtaining the needed distribution. Also the manufacturer must be very careful to determine to what degree the wholesaler is tied up with any similar competitive product. If there are competitive numbers in the wholesaler's line that he favors for any reason, the manufacturer is not likely to get all of the benefits that he may expect from the wholesaler's effort; and he may be left in a precarious position, if for any reason a wholesaler no longer promotes his product to the trade.

Sales Equipment. Salesmen should be equipped with good-looking and complete sample lines packed in good-looking cases. The samples should always be fresh in appearance. In addition to the samples the equipment should include an advertising portfolio containing samples of all the advertising the manufacturer purposes to do, and an order book with a good-looking cover. The salesmen should have complete information about the product and daily reports of prices of competitive products and market conditions. A salesman cannot get very far when interviewing a prospective customer if he does not have adequate material with which to work.

Salesmen's Portfolios. Salesmen's portfolios assume various forms. They may be elaborate; they may be modest; they may be meager; they may contain full information of the advertising campaign prepared in a manner to attract attention or they may merely be reproductions or facsimiles of some of the advertising about to be released. They may be handmade of fine leather for a small sales force. They may be of strong paper or cardboard, printed or lithographed, if many men must be equipped. Where active wholesalers' cooperation is expected, special portfolios, sufficient to give complete illustrations of the work being done to promote the product, can be purchased for from twenty to thirty cents each, in reasonable quantities. If adequate sales cooperation is secured from the wholesalers, as high as two or three thousand of these will be required, because

complete wholesale coverage will mean that many individual sales representatives will be working to sell the product.

The contents of a sales portfolio, if there are not many salesmen, may be prepared by hand in the establishment. It should contain photographs of display material, copies of advertisements, completed detailed price lists, sales promotional literature, and all the other information that the dealer would be interested in. It should also contain covers of the magazines in which advertising is appearing. It should be so constructed as to attract attention and to create in the mind of the retailer confidence in the firm whose merchandise is being offered for sale. Usually sales promotional material is prepared by the advertising agency, and is well worth the expense, if salesmen can be impressed with the necessity of using it, and checked constantly to be sure that they are using it. The proper use of the portfolio should, of course, be covered in the sales training course.

Wholesalers' Price Books. Most wholesalers supply their salesmen with complete price books. The manufacturer should try to get from wholesalers consent to supply price sheets to be inserted in the salesmen's price binders. The size of these binders have been standardized so that the sheets are uniform in construction and shape. Information of the size and other details as to the best manner of presenting price lists are obtainable from any of the service wholesalers or the National Wholesale Druggists' Association.

Usually the wholesaler will want enough price lists for each of his men. The price lists themselves can be valuable and effective in proportion to the completeness of the information regarding the product that is being sold. Price lists should always be available for the retailers, as it very frequently happens that the retailer may not be interested at the time of the sales representative's call but he may, at some subsequent time, desire to buy, and a price list left with him may lead him to buy your product; certainly it will make it easier for him if he wishes to buy and this helps in building good will.

Salesmen's Compensation. Salesmen are usually compensated on a commission basis, salary and bonus, or straight salary. Few of those on a commission basis work without some sort of drawing account; consequently it is the general practice to set up a drawing account sufficient to pay expenses, to be applied against commissions. Many firms pay expenses as well as car allowances. Others advance the salesmen sufficient drawing account for normal expenses such as traveling, hotels, meals, and so on, with monthly settlements. The method of compensation depends entirely on the individual choice but most firms estimate a selling cost exclusive of advertising of between 10 to 15 per cent.

Commissions vary with each line and with each manufacturer. The

higher the price of the merchandise, the more exclusive the product, the slower the turnover, the higher the rate of commission. For example, products like toiletries pay as high as 20 per cent, proprietaries 12½ to 15 per cent, and advertised specialties as low as 5 per cent.

In order to build up an efficient organization, many experiments will have to be made. It is quite possible that it will take at least six months to a year, especially in the case of a new line, before a manufacturer finds his salesmen paying their own way, even on a liberal commission allowance for selling.

Most drug products pay a commission of between 15 to 25 per cent to the field salesman, out of which the men pay their own traveling expenses. In cities, where the traveling expenses are low, and where outlets are concentrated, commissions paid may be less than 15 per cent. The lower rate should, however, be in proportion to the possibilities of the territory being covered, and a possible profitable territory given to each man.

Specialties, fixtures, and products of slow turnover such as holiday merchandise pay the highest selling commission. The smaller the item and the quicker the turnover of product, the lower the commission rate. The easier it is to sell the item and obtain repeat orders, the smaller the commission. (In the aggregate, however, the commission usually is equalized in terms of earnings of salesmen.) The more difficult the product is to sell, the larger the commission arrangement. These usual practices should be tested through cost studies and comparisons with rates paid by competitors before being put into final operation as the policy of the business.

The manufacturer, however, must bear in mind from the very beginning that no matter what figure he may theoretically set to cover sales expense, turnover of men will increase it so that selling costs at first will generally be higher than they will be after the product is established. Marketing in large urban selling areas helps to keep down losses due to turnover because the worth of an individual whose sole expense is carfare in his home town can be more quickly determined than can that of a man who is out on the road, many miles away from his home city or the manufacturer's headquarters.

There is only one sound way to figure selling costs. After the normal budgetry figure has been determined, set aside an amount for development cost for each territory to be worked and figure this as an independent cost of opening up each market. This will eliminate overoptimism and forestall disappointment if men fall down on the job.

Sales Contest. Sales contests, if effectively handled, usually educate and stimulate salesmen and help to secure better results; the competitive spirit is introduced quite effectively. They may be run for the house salesmen, for wholesaler's salesmen, or for representatives of sales agents.

The basis of awarding prizes may be the number of deals sold, a fixed

quota with a bonus for exceeding quotas, or relative standing in a particular drive. It is a good plan in a sales contest, however, to make the prizes obtainable by as many of the contestants as possible. One manufacturer found it advantageous to offer to each representative who sold ten of his deals a prize suitable for the ladies. In this way, every man knew that he had a good chance of getting a prize and was not discouraged if his territory was not strong enough to yield a very large volume of sales; he could count on at least ten deals and by offering as prizes items of interest to the ladies they enlisted the aid of the salesmen's wives to prod their husbands to a little more effort. A very effective form of contest in the drug field could be arranged by scoring salesmen by points for each activity he performs in connection with sales. By evaluating each job in terms of points by reference to the task requiring the least effort a satisfactory system could be worked out and sales activities, under the stimulus of the contest, would be performed that otherwise would probably have secured only passing and ineffective attention. Points could be given for each order over the usual number; for each dollar of unit sales increase; for each new account; for each dead account reopened; for selling larger-profit items; for selling special items of line; for holding down sales expense; for holding down credit losses; for exceeding general quota; for trimming windows and setting up floor displays; and for educating retailers' clerks. Another important factor is the promotion of the contest. Almost any book on sales management will give detailed instructions on this.[1]

There are some dangers and drawbacks to sales contests that should be noted. Salesmen in their enthusiasm to win may oversell an account; they may sell what is not wanted; the orders they induce a dealer to place may carry him for a long time and then there is a later disappointing letdown of sales. Contests are not effective unless they lead to sales that would not otherwise have been made. In the average situation there is room for such selling. Prizes suitable for this purpose are obtainable in many general merchandise fields. Sometimes the prizes take the form of cash, trips, house, or personal furnishings. In any case the prizes should be the kind that is desired by the sales force.

In addition to the sales contest, very often salesmen are compensated in the form of a bonus on a quota basis. The quota is usually set for him and he gets additional compensation as he sells various percentages beyond his minimum quota, or where the quota is fixed at a high point then the bonus is paid for varying percentages of the quota. Generally it is best not to set a quota so high that it cannot be hurdled; otherwise there would be too much danger of discouragement.

[1] See *Sales Manager's Handbook* (Dartnell Corp., Chicago, 1946).

THE ADVERTISING DEPARTMENT

The advertising department of the marketing division might consist of one advertising expert and his secretary who serves as the liaison executive between the company and the advertising agency, or it might consist of a department that handles all of the advertising of the concern. In the first case the advertising executive will determine the concern's advertising policies in conjunction with the executive in charge of all marketing, and the advertising agency. After policies have been decided upon he will then maintain continuous contact with the agency to check on the execution of the policies and the results of the advertising. The concern's advertising executive not only should be an expert in advertising but also should know the industry, its products, and its problems, so that he can present policies that might contain the solutions to the concern's advertising problem.

In the second case the advertising executive will be charged with the responsibility of setting up an organization that will successfully carry on the complete advertising job of the concern, after policies have been decided upon and the instructions have been given as to the job to be done by the over-all marketing executive. Such a department will consist of the advertising executive, an assistant executive, a copy chief and copy writers, an art director, a space buyer, a bookkeeper, and necessary assistants.

The job of such a department is indicated in Chapter 14, "Advertising Drug Store Products." It is enough here merely to suggest that the greatest of care should be used in the selection of the advertising executive, and he should be given the most competent of assistants. The drug and cosmetic industries spend more for advertising in proportion to sales than any others. This places a great responsibility on the management to secure the highest return for the dollars spent. The highest order of efficiency should prevail; the first step is to engage a competent executive.

SALES PROMOTION DEPARTMENT

The sales promotion department, in our view of the marketing division of a concern, is the unit that comprises the staff organization of the marketing division. Here under a competent manager should be found the following units:

Sales selecting and training
Sales planning
Marketing research
Market accounting.

Marketing research procedure is covered in Chapter 20, "Necessity for Market Research." This unit should develop a forecast of sales and indicate the obstacles to sales in respective territories. The sales planning ex-

perts would then work out exactly what needs to be done to secure the sales potentials. This would involve the unit in the consideration of all merchandising activities. The experts would study everything that might expedite sales, the kind of "mass" or "tonnage" advertising that would appear to be most effective, and the ways in which all the other types of attention-calling devices can be fitted in with the over-all marketing plans. These devices consist of point-of-purchasing advertising, consumer contests, the use of premiums and gifts such as calendars, desk pads, pencils, and other such items. The sales planning unit migh also advise as to the sales tools or equipment to be used, such as samples and other materials for objective sales presentation, demonstration materials, sales manuals, advertising portfolios, catalogs, order and report forms, and as to how the equipment should be used in making sales. Detailed treatment of many of these subjects will be found in Chapters 9, 10, 11, 12, 13, and 15.

The market accounting unit is still a comparatively new concept for most business concerns. This unit has the responsibility of computing the costs of sales by dealer, salesman, territory, product, and size. It would then report its finding to indicate particularly the profitableness of sales made under the varying conditions. These findings would then become the grist for the policy makers in deciding the products to sell, where to sell them, and to whom to sell them. The findings could also be used to note conformance to the Robinson-Patman Act and as evidence in any hearings that might arise before the Federal Trade Commission.

Chapter 9

DEVELOPING MARKET PLANS

In this chapter there is suggested the formation of a marketing plan by the producer or marketer. Various details in connection therewith are indicated, as for example the various methods that might be followed in the introduction of a product. This involves one in the hiring and training of salesmen (an important and complicated activity), the use of "free goods" at the right time, and how to expand the sales force as volume increases. Special inducements are apparently sometimes necessary to induce the best efforts of salesmen or the cooperation of dealers and these are suggested. The part played by demonstrators is indicated and finally the house-to-house method of selling is described so that this marketing plan may be resorted to if a newcomer should have a special aptitude for that kind of selling or if he finds regular channels practically closed to him. A recapitulation appears at the end somewhat as a review of the ground so far covered.

THE MARKETING PLAN

We have now reached the point where we must make practical use of some of the general information we have acquired about the marketing of drug products. We must decide exactly how we are going to operate and develop our own merchandising plans in conformity with conditions as we have found them. In order to do this effectively, we must accept the evidence we have obtained in our marketing survey and in our investigation of underlying price policies. We should determine the following:

1. What our price policies should be. As has already been shown the analysis of the price policies of competitors and competitors' products will suggest the limits of our price range.
2. What trade discounts to give to the wholesaler, and the retailer. What other special discounts, if any, to give. In Chapter 7, we have indicated customary discounts which may be taken as the base for the discounts to be used in our marketing plan.
3. The general terms of sale.

Attention has already been called to price maintenance and its effect upon dealer pushing and consumer buying. If we are going to adopt a price-maintenance policy, it means that we are going to add many problems to the general run of price problems. We must, therefore, plan operations to fall into those specific channels that will permit the maintenance of prices. Since the passage of the state fair trade laws and the Miller-

Tydings Bill, the problem of price maintenance is now confined to a definite question on policy—should a resale price be fixed or not? With practically every large manufacturer and most of the smaller ones working under a price maintenance plan, that problem is more or less solved. A fixed resale price is definitely recommended. The modus operandi is explained in Chapter 17.

We must determine, also, just to what extent we propose to tie up the sales plan with the wholesaler's selling effort.

The acquiring of new outlets is essential, and the hiring and training of the right type of detail salesmen is very important. After we have determined what we propose to do in any way of missionary dealer contacts, and have selected our sales staff for this purpose, we must then determine the type of outlets we propose to contact. If we are selling higher- or medium-priced merchandise, we should limit our calls to those outlets that are in the shopping sections of communities, and those retailers that are considered class "A" or "B" stores.

We must also bear in mind the departments we are going to solicit. This has particular reference to department and variety store calls. Care should be taken to see that the buyers of all the logical departments are solicited. In many stores, products are salable in more than one department. At the same time, plans should be made so that careful and consistent follow-up work with each of these outlets is maintained.

Having determined what our policy toward price maintenance is to be, having decided on the type of wholesalers and the nature of the outlets we want to solicit, we then must settle on our territorial coverage. We must tackle that part of our market that seems best suited for a product such as we are marketing and see to it that we have all the necessary information available to cover it in the most expeditious way. This necessitates careful planning, and, what is most important, the complete and careful coordination of the sales promotion, the advertising efforts, and the selling.

INTRODUCING A NEW PRODUCT

There are several ways to introduce new products that have been successfully used both by old, established firms and by firms who are embarking in the drug field for the first time. The basic factor in the success of all plans is the proper coordination of all efforts. If merchandise reaches the dealer too far ahead of the advertising campaign, his interest languishes, and the enthusiasm of the initial introductory effort is lost. Then, when the advertising actually starts, the product already seems to have gone "sour" on the dealer's shelves. The advertising should be released not more than 30 days after dealers are stocked.

If advertising is released soon after the dealers have received the product, and it is powerful in its pulling effect, it usually creates an interest among new dealers, and immediate sales results may be apparent. On the other hand, advertising before the product has been distributed among dealers is as ineffective as delayed advertising. Since coordination of both selling and advertising is very important, the release of advertising must be timed to coincide with the time when adequate sales coverage has been secured in the territory being worked. Generally, a territory should not embrace a field that takes more than four to six weeks to cover. A good plan to stimulate or secure interest of dealers is to send them a reminder immediately prior to the release of the advertising. This will create interest on the part of the dealers who have bought, and those who have said "create the demand first and I will stock" are more likely to watch for and note the calls developed by advertising and to stock more promptly than if the arousing of their interest is left to casual demand.

Salesmen very frequently solicit orders in inferior and unimportant outlets, wasting considerable time that might be spent more profitably elsewhere. Uncontrolled efforts of salesmen should be controlled and effectiveness of results will increase through properly directed promotional work. For instance, salesmen can be given lists of stores to call on. These lists may be classified either by credit standing; location as to high spots and neighborhood; or type, that is, ethical, general, or chain outlet. Lists of local stores can be obtained from many local newspapers, who usually have route lists available for advertisers.

In addition to using the sales promotion divisions of some of the large city newspapers, we can use the direct-mail method and trade publications to pave the way for the salesmen's call (see Chapter 12). Cooperation of this kind is essential to successful selling. As far as preliminary sales promotional efforts are concerned lining up the most likely and desirable outlets is a necessary corollary of our marketing plan. When properly conceived, it will help salesmen speed up their work, increase their efficiency, and increase sales.

Training of Salesmen. When any salesman approaches a dealer, he must be well grounded in his line. He must be fully familiar with competitive brand packages, his own selling terms, deals, prospective advertising, and, what is most important, the logical and sound reasons why the commodity will sell in the dealer's shop. The custom is generally to employ men to sell to druggists and kindred outlets selling drug products, and women to solicit those outlets where demonstrators are to be used.

Many plans fail to click because when the sales representatives make their initial calls, they do so without previous and thorough training. Salesmen should be instructed carefully, not only in price and product pol-

icies but in the merchandising and advertising plans of competitors, also the hindrances and objections they will have to face, so that they will be fully prepared for any or all selling resistances they will meet.

The course of training through which salesmen should be put may be arrived at by means of a job or difficulty analysis. A well-trained observer, by interviews, can discover the particular difficulties that arise in the selling of a product and how these difficulties have been successfully met. A trained educator could then be engaged to take the findings and map out a course of lessons and perhaps do the first training of salesmen, after which an executive of the business ought to be able to continue the work. Those who find it necessary to train on a large scale will find the principle well developed in W. W. Charters' book, *How to Sell at Retail* and in a survey of such training in the unpublished thesis by Louis Bader, *Course Construction for Sales Training in the Electrical Industry,* New York University library.

Salesmen should also be instructed as to how to capitalize on the dealers' orders that they take, by using them as a selling point in trying to interest others. These results can be brought to the attention of wholesalers most satisfactorily, so that the interest of the wholesalers' sales department can be capitalized to the fullest degree, by the example of the field success of your own men. Generally, the best way is for salesmen to hold the orders in the field, and when calling on a local wholesaler, to show them to the buyer. This will help materially in getting the wholesaler to buy the product not only to cover the orders given them but also to have an extra quantity for repeat orders from retailers.

Sales managers, very frequently, neglect to make actual field calls with the salesman. Having the sales manager accompany him on field calls gives the salesman confidence, helps to make sales, and uncovers imperfections in the merchandising and sales plans that did not show up in the preliminary planning, and that might not otherwise have been discovered before the plans were launched on a large scale.

It is essential, too, in instructions to salesmen to acquaint them thoroughly with credit conditions existing in each territory. Credit conditions and the directing of sales efforts accordingly will have a large bearing on the success of the sales campaign. The following is illustrative of what is meant:

Most druggists do the bulk of their buying from their regular wholesalers. This includes even the orders given directly to manufacturers' salesmen or agents in which cases the orders are "billed" or "shipped" through wholesaler. The wholesaler generally offers a variety of fifty thousand or more items regularly stocked and by drawing on the wholesaler's stock for small and frequent purchases the dealer is enabled to secure a rapid turnover impossible when the same character of merchandise is purchased direct from the manufacturer. Also, the great majority of

manufacturers in the drug trade have no facilities for direct-to-druggist selling and therefore supply their merchandise almost exclusively through wholesalers.

However, in the cases of manufacturers of broad and diversified lines or of products suitable for direct purchase by druggists in sizeable quantities, it is practical both for druggist and manufacturer to establish direct buying relations.[1]

If the wholesalers in some territories are compelled to say "thumbs down" on C.O.D. to 50 or 75 per cent of their customers, a condition that was prevalent in many places during 1934 to 1940, then any selling effort will be futile in those territories, and consequently those territories should be avoided.

Demonstration, Supervision and Control. If we propose to have our advertising and selling handled by means of demonstrations at the point of sale, we must first arrange for our demonstration crews. Second, we must have our supervision lined up, decide on the timeliness of both efforts, and arrange for the necessary contracts and tie-ups with department and other store buyers. Furthermore, demonstrators must be trained. Usually, the supervisor in the home city is given the job of training the demonstrators in some local outlet, or demonstrators are employed in the home town, trained by the general supervisor, and then sent out from headquarters.

Developing One Territory at a Time. The plan of building a business by developing one territory at a time has been used by many firms and found exceptionally successful. When this method is used each territory receives its intensive sales, merchandising, and advertising coverage with greatest efforts concentrated at the point that will produce the best results. Operations are not too widespread; therefore careful and thorough control is possible.

Noxzema Chemical Company is one firm that has used this method successfully. The firm has been building each market on its own and been outstandingly successful with their specialty. There are many others whose experiences have been similar and whose basic plans might well be followed.

Free Goods. In the introduction of new products, very frequently free introductory offers are made to retailers. We are not referring, here, to the commonly known "free goods deals," which are but a form of price reduction and which were discussed in detail previously. What we refer to here especially is the method of introducing new products by giving dealers some of the new product free without any purchase of any kind. An example of a successful introduction of a new product without using salesmen is that of Vicks with its Voratone Antiseptic. They sent every retail druggist four packages of the 10¢ size and two packages of the 25¢ size free, prior to their campaign. This naturally aroused the interest of

[1] *Fact Book,* Topics Publishing Company, Inc., 1929.

the retailer, as he was receiving 90¢ retail value free. The advertising tie-up was nationwide in scope, and powerful enough to move the initial merchandise from the hands of the dealer, even in a highly competitive field with Listerine, Pepsodent Antiseptic, and others. It was timed to reach the public in mid-winter, when products of this type are most widely used. Not only did the merchandise receive favorable dealer acceptance but also a consumer who had been sold by the advertising had no difficulty in satisfying his wants, if he chose to buy the product. He was not compelled to make many stops before he found a dealer with the product.

Disadvantages of Free Goods. Introducing the product through sending out free goods was expensive but certain in one respect. It secured immediate distribution of a kind. At the same time, it has its disadvantages. The dealer frequently is not interested in the product. He has not been told much about it. Probably he gave only casual attention to the advertising plan when it was laid before him. He has the product on hand, and can make delivery when it is sold or when it is called for over his counter, but he puts forth little or no effort of his own to sell it. And some interest on the part of the dealer is considered necessary in the sale of any product. When distribution is obtained by free goods, there is little or no possibility of selling large quantities to the dealer while the free merchandise remains on his shelf. Although it is expected that the advertising will have sufficient power to pull the merchandise from the dealer's shelf fast enough to create a constant turnover of merchandise, thus requiring repeat orders from the dealer, it does not always do so. This method of getting initial distribution has been tried a number of times with some success, but it is expensive in the first instance, and in few cases has it succeeded 100 per cent. Vick's Antiseptic was apparently successful. They demonstrated the principles necessary to success: a good product, a well-known name, good will of dealers, and the financial resources that permitted expenditures necessary to put the deal across—they were reported to have spent nearly $1,000,000 in a three months' campaign.

Generally, to send any merchandise to a dealer without the personal call of a salesman means ignorance of what constitutes a sales campaign. Often clerks will not know that there is any product in stock and that means loss of sales. A small stock of merchandise means inadequate display, and a poor tie-up on the part of the dealer with window and counter displays. Lack of effective impression on the dealer, casual and ineffective sales drives, and complete ignorance of manufacturers' plans and campaign, all combine to make this method of obtaining distribution dangerous for any but the most experienced manufacturer with complete acceptance and recognition in the drug field in connection with other products. Other methods

should be used—methods that will give not only complete coverage, but more effective coverage.

Advantages of Territory Concentration Through Free Goods. There is one definite advantage in this method of introduction to a product. It insures complete and absolute coverage in any territory. From a distribution standpoint, it is no more expensive than hiring salesmen and creating a complete sales personnel, it eliminates sales expense, increases turnover, and reduces costs. It enables the advertising to be released much sooner, because the distribution can be obtained immediately, that is within 24 or 48 hours. There is little danger that the merchandise will go "sour" on the dealer's shelf.

Follow-up of Free Goods Needed. The most economical and effective way of introducing a product in any market is to distribute a small quantity of salable packages to the retailers free, if the cost of the product is not too great, release the advertising, and then, after the advertising has been running a short time, to send salesmen into the territory for repeat orders and to get dealers to cooperate by purchasing adequate stocks and tying up with window and counter displays. In this manner little time is wasted, complete coverage is assured, and few sales to the public are lost because of the failure of the retailers to have the goods on hand for public call.

The reason that the latter plan is recommended where practical becomes apparent when we consider that today not only does the wholesaler prevent the manufacturer from selling most merchants too much on an original bill, but the dealer himself is strongly against stocking new products except in very small quantities. The manufacturer loses but little if he confines the initial sale stock to the dealer to a nominal quantity that gives quick turnover which is helped by the pulling power of the advertising.

SPECIAL INDUCEMENTS

In our marketing plans, we may have determined to offer special inducements, both to the salesmen and to the retailer, for quantity purchases. It is impractical to mention here all the special and peculiar methods that have been used by firms to attain additional sales and larger unit sales. The following are some general observations and will suggest the types of inducements used successfully to secure cooperation from salesmen and dealers.

Payment for the use of store and windows for advertising is largely confined to the drug field. The payment of premiums to dealers of chains and hidden demonstrators in department stores are also practices that were quite prevalent in the drug field, and rarely in other merchandising fields.

The practice of hidden demonstrators was frowned upon by so many in the drug field that it was forbidden in the Perfumery Code under the N.R.A. The elimination of the code threw the field wide open again to the practices and the abuses to which it may give rise. The abuses however may be held in check by the Robinson-Patman Act since special allowances and inducements to make sales must be given proportionately to all dealers in competition with one another. Payment of advertising allowances to chains, catalog space, and other special inducements of various kinds are so frequent they have become customary. With the prevalence of special inducements, one must remember that in selling drug products, customs and policies that are in existence will be encountered and one's plans must be prepared to cope with practices so as to get the greatest possible cooperation as the result of these efforts made.

In addition to the practice of p.m.'s, payment for windows, hidden demonstrations and other forms of cooperation which are usually given to the larger retail units, we have to give attention to the cooperative merchandise plans used by some manufacturers. It may be found essential or advisable to put some plan of this nature into effect. If we do so, it may change our entire sales and advertising plans.

Those firms, as a rule, who use hidden demonstrators, use them not only as salesmen, but really as part of the advertising plan. The use of demonstrators may have the effect, generally, of reducing the amount of other advertising used. Demonstrators are effective principally only in those stores in which they are placed. The effect on other outlets and merchants is not very great. Since the major part of their advertising appropriation is spent on demonstrators placed in stores of competitors, the general run of merchants will be distinctly cold to the manufacturer's lines. The use of demonstrators raises an important problem in connection with our merchandising plan. Many products cannot get any help at all from department stores unless demonstrators are supplied, and in those stores where the largest part of the personnel are employees of different manufacturers it is difficult to get any clerical cooperation under those circumstances.

Transforming Dealer's Clerks into an Effective Sales Force. As part of our marketing plan, it is advisable that we make full use of the facilities in the hands of the retailer. In the large outlets we can do this by hiring demonstrators. In the smaller outlets, however, where the owner is the sole sales person or, at the most, where there are but one or two clerks, this is impractical except as a temporary expedient. Our salesmen get the product on the retailer's shelf. If we expect our advertising effort alone to pull merchandise off, we are giving ourselves quite a job. We must make some effort to get the dealer to help us. P.m.'s, as has been mentioned, are employed in large outlets like chain drug stores but they can

also be used in smaller stores and in addition many manufacturers take advantage of the competitive spirit in everyone to stimulate cooperation by prize contests. These prize contests may be in the form of contests for retailer's clerks, window displays, unique effort in the pushing of our product.

Sales Bonuses. When the dealer is asked to perform extra service, he expects to be paid for it and most firms realize their ends are best attained by taking advantage of the competitive spirit and desire for extra profit by arranging means for dealers to gratify this desire.

To this end, premiums have been used largely. These premiums are offered to dealers in many ways. The details of premium offers can be worked out by each manufacturer to his own satisfaction. When they are given to the trade in general, they usually are in the nature of a prize or an extra discount. When they are offered to the consuming public, they usually embrace a combination offer of two or more products at a special price. Details of some of the ways and means of working out offers of this kind will be told later. In the meantime, we may have to provide for them in our marketing plan and we must be ready to consider them at the proper time.

CONTROLLED METHODS OF SOLICITATION

We have pointed out previously the necessity of careful selection of outlets, and the proper distribution of calls on them by the manufacturer's representatives.

The manufacturer must be selective in his method of calling on the trade. One manufacturer, Squibb, carries as a slogan a statement, "Your druggist is more than a merchant." This statement can be paraphrased to "Your druggist is far from a merchant." The druggist is essentially a professional man rather than a merchant. This means that the solicitor of accounts, in his selection of dealers, should use care and should have a full appreciation of the type of outlets wanted.

A recent survey [2] was made from which may be had a composite picture of sales practice among drug companies which might be used as a guide in the solicitation of accounts. It follows:

1. A sales policy recognizing no restrictions as to type of logical outlet.
2. A liberal attitude toward price cutting, tempered with an aggressive effort to prevent price slaughter.
3. A direct-to-the-dealer as well as through-the-wholesaler sales plan.
4. Selling direct the smallest quantity that it is possible to ship economically.
5. Recognition of the fact that goods remaining on the dealer's shelves might better be in the factory.
6. Consequently avoid overloading and contribute every assistance to speed up turnover of retailer.

[2] By International Magazine Company.

7. Realization of the fact that thousands of druggists have no business buying direct—the best possible support of the wholesaler in selling these stores is a sound policy.
8. Salesmen instructed to sell the resale of the product; advertising to sell the product itself.
9. Maintenance of an adequate sales record and analysis system to permit the study, on a selective marketing program, of known or determinable fact.
10. No let-up in the advertising effort by which brand consciousness and consumer acceptance may be acquired—for many worthy products can be lost in the tangled labyrinth of drug store retailing.

These conclusions have been arrived at on the theory that the retailer has been the beneficiary of highly ethical practice for many years. He has seen, however, that many practices have come into his business that are not in keeping with the principles under which he was nurtured. We, therefore, come to the realization that the problems that trouble the retailer are also the manufacturer's problems, and only by helping solve them for the dealer can the manufacturer solve them for himself.

If we add to the above list of composite practices an analysis of the market on the basis of data already presented on population, income, distribution, and store location we can develop that solicitation of the market that will yield the best results.[3]

HOUSE-TO-HOUSE SELLING

In all our discussions on the sale of drugs and toiletries, we have based our facts and conditions on the marketing plan that presupposed sales through retail dealers, whether they were druggists, department stores, or mail order houses. However, as our analysis of sales through various outlets has indicated, house-to-house selling is a recognized and widespread method of selling toilet goods and drugs.

Since the fundamental purpose of this volume is to give a complete resumé of the methods and problems of marketing in this field—it is advisable, therefore, before deciding on a marketing plan to become acquainted—at least—with some of the fundamentals of the house-to-house field, so that this method of marketing may at least be given some consideration before a plan is finally decided on.

Similarities of House-to-House and Dealer Marketing Problems. The manufacture of the product and other problems of preparing the product for market remain the same, but the marketing problems and routine are entirely different from the ordinary manufacturer-to-dealer-to-consumer setup. Since this type of marketing lends itself to immense possibilities, it is well to consider some of the important differences to be found in this field.

[3] In this connection considerable attention could be given to the *Trading Center Method of Sales Control* by International Magazine Company, which contains maps, data, and a formula that can often be applied. See also Chapter 1.

Differences. When we come to the house-to-house method of merchandising, we are confronted with problems different from those of dealer merchandising and we also do not have many of the problems that exist in the dealer field. First and foremost is the question of price and terms.

The price for house-to-house selling must be based not on dealer and jobber discount bases plus a selling commission and advertising but on a retail price less a commission to our representative and a net price to ourselves. The price, however, should be no higher than the customer would pay in the local retail store. The house-to-house customer normally does not buy high priced items; they want guarantees and, frequently, something free, as in the form of premiums. Many firms use coupons—which are given away by the salesman and are accumulated for valuable premiums. Products sold house to house generally are not advertised to the public so advertising is not included in our budget. Offsetting this, we have the high cost of obtaining and training agents, the huge turnover in representatives, and the follow-up cost of keeping agents interested and working to secure adequate sales volume. The second important problem in house-to-house canvassing is the selection of the right type of sales personnel and their subsequent training. Many of those who offer their services are floaters and the turn-over of personnel is quite high.

Scope of Business. Let no one assume that house-to-house selling has not its place in the field. When we look upon such firms as

California Perfume Company
Furst-McNess Company
The Watkins Company
American Products Company

and realize that their agents number from 30,000 to 50,000, we can easily realize that this represents a sizable market. In a book of this type, we can only give reference to house-to-house selling in a casual way, as most of the problems of other types of selling do not exist with this type and the method of operating must be developed as one progresses.

Dealer Reaction. Dealers will rarely handle lines that are sold on house-to-house basis. Many resent it so much that they urge local legislative bodies to pass so called "antipeddling" ordinances and licensing ordinances to curtail this type of selling. It is for this reason that house-to-house selling is generally confined to very large cities where peddling licenses are usually inexpensive, or at most unincorporated villages and rural districts where such ordinances are not practical. In the smaller cities these licenses are very often as high as fifty dollars, generally too high for the average house-to-house agent.

Types of Merchandise Sold. The sale of merchandise house-to-house is usually tied up with the sale of a wide variety of household products both food and drug combined. We find most of the larger firms in this field selling flavoring extracts, soaps, packaged food products of all kinds along with toiletries such as creams, lotions, face powder, tonics, and so on. The same firms also sell the common household remedies like cough medicines, aspirin, mineral oil, and similar minor medicinals. Generally, while these firms package their own food products and flavoring extracts, for the most part their drugs and toiletries are purchased from trade houses, packaged for them under their own private brand.

Payment for Goods. The safest method of operating in this field is either on a C.O.D. basis or cash in advance. Generally, when a line is not too large or the product is a specialty, the agent will carry stock, make immediate delivery, collect for his sales, and then send in cash for his restocking of merchandise. Some house-to-house salesmen actually have trucks on which they carry a wide variety of merchandise and a large stock. Of late years, there has been a definite effort to build up the dignity of this type of selling.

Sales Literature. The technique of getting salesmen and sales promotion plans are peculiar to each firm's special method of operating. The agencies who specialize in preparing literature of this type should be consulted and their advice followed as to the preparation of sales literature, to attract agents and to keep them active. Circular letters, broadsides, application forms, sales equipment are all needed, and the entire setup requires a merchandising technique, speculative in the extreme.

Selling Agents. As has been explained, the greatest sales cost in this field is the obtaining and retaining of salesmen. Sales agents are obtained in several ways: by direct advertising, by circularizing, and by recommendation. The most effective form of direct advertising in obtaining sales agents is through the columns of the leading magazines on house-to-house selling, of which *Opportunity* and *Specialty Selling* are typical. Advertising in the classified or general columns of these mediums will usually bring many letters of inquiry from interested house-to-house salesmen both experienced and inexperienced, who are anxious to earn some part of their livelihood by this form of selling. By the exchange of prospects lists between noncompeting firms, it is also possible to build up a selling organization. Many firms also make use of lists of clergymen and teachers in the smaller communities. The latter very frequently possess the names of men and women who might become desirable sales agents and very frequently will recommend the names for that purpose. These are just a few of the major methods employed to obtain names of possible house-to-house operators. The problem is how to get them interested and selling. Since

the turnover of agents in this type of selling is very high, constant efforts must be maintained to keep agents interested.

Handling Agents. House-to-house salesmen are frequently floaters. In bad times, the number of prospective agents increases. In good times they are more difficult to get. Applications are usually sent to all prospective sales agents, detailed merchandising history is required, and considerable care is exercised in the selection of agents. Sales agents even of drug specialties or complete lines require at least 40 per cent of the sales price and as high as 50 to 60 per cent for their share. Sales agents are usually required to pay cash for their sample lines but receive credit for the amount paid after a minimum volume of business has been done.

Sales Supervisors. Where a large force of agents has been developed, it may be necessary to appoint territorial supervisors. These supervisors train men, allott territories, adjust complaints, and keep the ratio of man turnover at a minimum. The use of supervisors does not become important until the staff has grown to considerable proportions.

House-to-House Stunts. While we have briefly discussed one type of marketing which is limited in scope at this time to large lines of miscellaneous household products, there are other types of house-to-house selling that individual ingenuity can develop. Recently, there has been an effort on the part of new beauty-product firms to develop their lines on the house-demonstrations basis. The plan usually works something like this: A telephone call is made to a woman, a member of some suburban club or charity organization, asking for an appointment for a free massage or facial in the woman's own home. Generally the appointment is made, and the demonstrator, who is a clever sales person, in one call out of three is usually able to deliver a convincing selling message and effect sales of a private line of toiletries. In this way, a steady clientele is built up and some business is developed.

MAIL ORDER SELLING

One need hardly glance at the pages of any of the lower-priced magazines or the mail-order editions of the New York *Mirror, News,* Philadelphia *Inquirer,* and other media of this type to realize that the mail-order sales of toiletries and drugs are still important. This particular field attracts many consumers and occasionally a product first introduced by mail acquires favorable dealer reaction. Usually the products offered are single specialties.

With some products sold by mail the strongest kind of advertising copy exaggerations are required, to make this medium effective, and with the careful scrutiny of advertising by the Federal Trade Commission the difficulties of merchandising in this way have become increasingly severe.

The ease with which one can start, the comparative nominal capital investment required for initial tests, and the glamorous hope of tremendous profits have led many to try this method. Rarely indeed does this form of marketing produce any outstanding success, although judging by the length of time some advertisements have been running, some people must find them reasonably profitable. The type of merchandise offered in this group usually runs to the semiprivate range like trusses, bust developers, alcoholic cures, fat reducers, and other products of similar and sometimes dubious character.

Although merchandising of drug and toiletries by house-to-house selling or by mail order direct from manufacturer to consumer will not attract most of the legitimate operators in the field, there are firms marketing their products in these ways and therefore the two methods cannot be overlooked. Individually, they are not directly competitive with the average firm; indirectly, they are a factor and at least their marketing possibilities and problems should be known if not followed.

After all, firms like those mentioned above in the house-to-house field have many years of outstanding success behind them and it is sometimes worth while to examine their methods and profit by their experiences.

RECAPITULATION

It is well for us at this time to take stock of our merchandising and manufacturing plans and arrive at the basis on which we propose to operate. In the previous chapters we have indicated for the prospective entrepreneur the general importance of the field he is planning to enter, the nature of the dealers to whom he will sell his product, the character of the commodities, the problems to be encountered from the consumer, dealer, and manufacturing angles, the importance of proper and adequate financing of his business, aspects of packaging and their relationships to the public, and his ability to manufacture his product economically. Their importance and the way they affect one another have been pointed out.

In our sales chapter, we have endeavored to show the desirability of confining our sales efforts to those territories and groups that coincide with our financial ability to absorb the marketing costs necessary to create the acceptability of our product by the general public, so as to operate profitably.

We have shown just how necessary a complete marketing survey is as a prerequisite to embarking on our enterprise and how necessary it is to be sure that the plans we have adopted are consistent with conditions and experiences of others in the industry. Whereas some of the facts we must acquire seem quite intricate, if the necessary steps are taken in their orderly

procedure, the complete plan will soon work itself out with a cohesive pattern.

Having this in mind, it next becomes necessary for us to determine just how we are going to make use of the information we have. In other words, our planning board must lay out those methods we are going to use out of many that we have considered. These methods develop into the following basic groups:

1. Prices and Terms. In this group of problems comes the question of prices to the public, to the retailer, and to the wholesaler. Under this section, we must decide our discounts, bearing in mind that these have some relation to our competitors' discounts, where price scale cannot be ignored. We cannot hope to compete with the field, if our prices are out of line with those to either the dealer or the consumer, for similar products. In other words, it is difficult to sell a product at 60¢ retail when other similar products are offered at 35¢. Nor can a list price be placed at $2.40 for a 25¢ article when the usual price is $2.00. In the pricing group, part of the question of packing is settled because the size of our package will be governed by the price we get on our product.

2. Sales and Merchandising Plans. Having determined upon our general price policy, we must now put this policy into practice. To do this we must first organize and train our sales force. We must decide how they are to sell, where, and to whom. We must also decide the restrictions we are going to make, if any, in the character of our outlets and, if there are to be restrictions, the reasons therefor. We must prepare our men with adequate sales literature and we must back them up with a sales plan that is timely as well as efficient. In doing this, we must make use of all the information we have gathered about the experiences and methods used by others. We must decide what information can be discarded. We must determine the merchandise deal we are to offer, and we must bear in mind circumstances that may prevent our deal from being successful. The details of the sizes, types and methods of offering deals will be discussed later.

We must settle whether we even want salesmen at first, or whether we can use to best advantage the distribution method of free merchandise, so successfully employed by many manufacturers. One of the last products introduced into the market in that way is Jests—put out by Ex-Lax, Incorporated.

Then we must consider our advertising. As our advertising is a necessary part of our merchandising and selling plan, unless it is effective, complete, and timely our campaign will fail.

If our merchandising efforts, however, are not right; if our merchandising efforts do not place the goods where the consumers can get them when

they want them; if our merchandising efforts arouse the consumer's ill will, then our entire campaign fails and our investment is likely to be lost.

Full knowledge of the background is essential for the successful entrepreneur in the drug industry. When one firm with millions at its command like Vicks can specifically state to its stockholders that they expect to spend $900,000 in 3 months to introduce a new product and do not know that their efforts will be successful, then it becomes more evident than ever how necessary and essential it is to be sure that all of the loose ends of our entire merchandising program are properly tied together carefully, co-ordinated properly, and put into execution effectively. This can be done only when the various steps to be taken are thoroughly surveyed and analyzed, when the plans are carefully made and carried out, and when the many possibilities of failure are eliminated. In marketing drug and cosmetic products, the advantages of being able to test many of our plans are so outstanding that, by the proper application of our knowledge, the probability of failure can be reduced to a minimum.

Experience in the drug and toilet goods market can be summed up best by the comment, "What not to do." The firm that has the foresight to eliminate the ways that are wrong will never suffer even if it actually does only a small number of right things in all. Two or three wise moves can make a very successful business. One important false move may be fatal.

3. Test Markets. To this end we have available test markets. These test markets in a country as large as ours can be large or small, as the manufacturers will. It enables them to try out merchandising and even advertising plans in places fairly distant from one another to determine their effectiveness. In this way a manufacturer is able to test out the various phases of his problem about which he may be in doubt and to learn from inexpensive tests the errors and loopholes in his plans. It is seldom that any plan that is adopted can be carried through to ultimate conclusion without changes. Sudden changes in conditions, unexpected competition, and other interfering factors crop up that make change of plan necessary. Any organization should be flexible enough to be able to meet and overcome unforeseen situations as they appear.

In any event, regardless of how large or small our organization may be, how extensive or how thorough our merchandising campaign may be, we must embark on a program that has as its background all the necessary information to be able to make our tests properly. Too often campaigns go off half-cocked or half-completed, resulting in miserable failures whereas complete success would have been assured if the application of adequate preliminary effort appropriate to the campaign had been employed.

Chapter 10

INTRODUCTORY AND COMBINATION SALES TO DEALER[1] AND CONSUMER

Producers resort to what are called "free deals" and combination offers to dealers to make larger unit sales to dealers or run a special for a limited time that should yield the dealer a larger profit. The "free deal" may be described as giving a dealer one package extra on purchase of a dozen, or any similar type, the number being irrelevant. Of course, these "free" goods are not given away free. They must be figured in the cost and somewhere they will appear in the price. If competition uses them as a device to make sales you will probably find it advisable to follow suit, otherwise some dealers may be fooled and you will lose business. This chapter tells you of the different kinds of such deals, how to use them, the pitfalls they present and how to avoid them, and what to do relative to free deals when selling through a wholesaler.

ORIGIN AND MEANING OF FREE GOODS DEAL

We have had occasion from time to time to mention free goods deals because of their prevalence in drug product merchandising. In this chapter we propose to discuss this sales device further. Free goods deals were first offered about thirty-five years ago by some manufacturer's clever sales manager who realized that instead of selling a retail druggist a gross of merchandise at $18, if he sold him a gross at $21 and gave him two dozen free, the net result was an increase in sales volume of 12½ per cent with no consequent increase in selling cost. The word "free" was the bait that attracted the retailer, although as a matter of fact there never was a free goods deal of the kind where anything offered was really free. A *free goods deal* can be adequately described as a disguised reduction in price to the dealer, in order to increase the size of his unit of purchase.

A free goods deal to the dealer is not to be confused with the combination offer or premium sale to the public, which is fully described in Chapter 13. The free goods deal is a disguised price cut to the dealer; the combination sale, a disguised price cut to the consumer. And the reactions to each in the trade are entirely dissimilar.

[1] We have used in this chapter the term "free deal." We point out, however, that there really is no such thing as a *free* deal in this field. The Federal Trade Commission has been cognizant of this for some time and the commission is trying to have this term eliminated. The trade is meeting the commission in this matter by changing the term free deal to introductory offer or some other similar name.

TYPES OF DEALS

Free goods deals may be divided generally into three classes as follows:

1. Introductory deal. This form of offer is used when a manufacturer is marketing a single product or has only one leading product. A free goods deal consists of the giving away of 1, 2, or 3 extra pieces of the product with a dozen purchased.

2. Free deal combination. Many manufacturers who have a popular product on the market find it possible to introduce a new product by offering free goods of the new product with a minimum purchase of the old one. This type of deal is usually effective as the dealer already has a steady demand for the old product and looks upon the offer as a real concession.

3. Quantity deal. This form of deal is not always worked on a free goods basis. Sometimes for a minimum purchase, manufacturers who sell direct will give a trade discount. Manufacturers who have a number of products may give free pieces of one product with the purchase of 3 or 4 of the others. Sometimes both free goods and discounts are given on minimum quantity purchases.

The Use of Free Goods Combination Sale to Introduce New Products to Dealer. Generally the manufacturer is very anxious, when he introduces a new product, to secure quick distribution of it. The simplest way for him to get this distribution is to tie up the introductory sales of the new product with the sale of some product already successfully launched that the dealer is eager or willing to purchase. This is done either by offering the new product as a bonus when the old product is purchased in specific quantities or by offering a larger discount on a combination purchase of both the established and the new product than on the old product alone.

Often, when combination sales comprising several items are made to the dealer, the manufacturer includes in the group those items for which there is generally little demand, as he feels that if he stocks up the dealer, he will get extra sales push from the dealer and clerks and in that way build up volume.

Very frequently, a manufacturer will include a new product in the standard shipping unit of his old product, as Smith Brothers did when they introduced their Mentholated Cough Drop along with their original Licorice Cough Drop. The manufacturer uses the combination sale primarily as a means of distributing his merchandise in the field quickly so as to be assured of adequate stocks in dealers' hands when advertising starts. However, the attendant results are not always to his liking.

Effect of Combination Deals on the Trade. The trade generally is decidedly antagonistic toward combination sales to the public of a manufacturer's product, especially when a new product is tied up with an old one.

To offset the feeling against the practice, many manufacturers volunteer to make exchanges of the new product for the standard old product in the event that the new one does not sell satisfactorily. If the manufacturer has confidence in his new items, and intends to back up his new venture or product with intensive advertising and other promotional efforts, then it is to his advantage to see to it that as many dealers as possible have the product on their shelves. For this reason manufacturers are willing to offer the new item on an exchangeable basis. They run very little risk of being compelled to take the product back later, because the mere fact that the dealer's risk is reduced to a minimum because of the exchange offer will help the manufacturers get whatever dealer cooperation is available.

Whether or not the combination offer to consumers decreases the good will the retailer has for the manufacturer will depend largely on the house policies. The manufacturer should, therefore, make sure that all questionable phases and all objectionable factors in the sales contract are eliminated so that if the product finally has no public acceptance, the dealer's loss, if any, will be limited in amount. Thus in this kind of deal the retailer runs very little risk, yet at the same time is prepared to answer calls for new merchandise as occasion may arise. The manufacturer, of course, has the advantage of getting distribution quickly and inexpensively.

The Purposes of the Deals. As pointed out before, one of the main purposes of the free goods deal is to increase the sales volume by a disguised lowering of price to the dealer. Naturally, the creator of the free deal could not retain a monopoly on the idea, so it was quickly copied and used by others. And as others used the plan, the idea grew that through its use competition might be eliminated by loading dealers' shelves; and its use therefore became widespread. Finally the free goods plan became universally adopted as an introductory offer to induce large initial sales of a product, or larger repeat orders periodically, even after a product had become established.

The free goods deal actually is a quantity discount, but in view of the fact that merchandise rather than cash is given away, the manufacturer can show a large unit sale, and still retain his standard list price. This is true only if the offer is a special concession. If the free goods becomes part of the regular price or is offered permanently, then the deal is no longer a special offer by the manufacturer, but is merely a permanent reduction in price. Then the term "free deal" is a misnomer and loses the ability to increase sales by "selling up" the dealer, at periodic intervals.

Deal as an Introductory Offer. Because of cutting down purchases, restricted credits, poor business, slow turnover, the retailer, knowing that he can buy his requirements from the manufacturer in nominal quantities and get the best price, is not inclined to buy more than a minimum sales unit of

any product. The usual cry of "create the demand and then stock" means sales of $\frac{1}{12}$ of a dozen on calls. The manufacturer, therefore, in order to get real display of his product through having sufficient stock in the dealer's store for him to make a decent display, and in order to sell enough to pay for the cost of soliciting orders, usually allows a discount in merchandise from $8\frac{1}{3}$ to 25 per cent on an original sales unit of at least one dozen of a new product and sometimes for a minimum purchase of three dozen. The custom, as has been stated, is to offer free goods instead of a discount on the price.

Dealers' Attitude Toward Deals. The manufacturer of any drug specialty who does not offer a free goods deal at some time or other is the rare exception. As a matter of fact, trade customs and practice have so spoiled the retailers that the average druggist now expects free goods on everything he buys sometime or other. He thinks that they are part of the sales policy of the industry and takes them as a matter of course. He expects them because of the supposed extra profit and, as one wholesaler states, does not realize that they are really not an extra profit when he includes the loss as represented by the slowing down of turnover, caused by the size of the required purchase to get free goods.

An executive of a large cooperative drug buying corporation stated the case against free goods deals in the 1930's and the belief [2] about them is not much different in the 1940's:

> Manufacturers have told me that the free deal is the only means they know of whereby they can enable their specialty salesmen to pay their way. This means that the manufacturers are willing to employ specialty men at the expense of the retailer, because the dealer actually loses money on at least nine free deals out of ten.
>
> They also offer the deals on the theory that if they force orders on the trade the dealer will push their goods. There might be something in this theory if the manufacturer had a monopoly on the free deal system. But after a retailer loads up on some free deal he thinks he can sell profitably, he is almost invariably offered another deal on a competitive product for which he receives an occasional call, and he puts it in, too. This experience is repeated again and again in the buying of most of the goods the druggist handles, and the result is chaos for a good many retailers.
>
> In marketing his goods the druggist is frequently led by free deals into confusion and costly mistakes. He is sold, let us say, one dozen of an item with a quarter-dozen free. When he marks the goods, to ascertain his cost, he figures off the discount represented by the free goods. He marks this cost on the goods, and then, in the course of time, when he reorders the item from his wholesaler, he compares the regular price with his free deal cost, and howls that he is being robbed by the wholesaler. Or he forgets the price paid and marks the new goods with the old cost. In this and other ways, free deals cause a lot of trouble and bad feeling, besides loss of profits.
>
> The most convincing argument against free deals can be found in about 90 per

[2] One druggist told one of the authors in April 1940 that as a result of "so-called" free deals he found himself with several times the number of tooth brushes he could sell in the rest of the year.

cent of the independent drug stores of the country, and in many of the chain stores. I do not know a druggist who has not acquired some unsalable stock through the purchase of free deals, and in many stores such stocks have reached dangerous proportions. I have checked the stocks of a number of druggists who were in a failing condition, and in almost every instance the druggist could have paid his bills and had a balance in the bank if he could have realized the money he had invested in free deal merchandise.

Selling in the drug field, as in any other industry, is a question of the survival of the keenest and strongest financially. A manufacturer, therefore, cannot hope to change the policy or habits of the dealers by introducing unusual methods contrary to trade custom until he has become sufficiently strong as indicated by consumers general acceptance of his product. While deals are not accepted with great favor any longer, they still offer the manufacturer many desirable results, and that is why they are being abandoned only slowly and with great reluctance.

Generally, if the dealer has a large stock on hand, that fact alone will make him try to push it off his shelf. That, in itself, helps the manufacturer in his advertising tie-ups. The shipment of complete unit deals through the wholesaler makes it easier for the manufacturer to keep tabs on the stock of his wholesalers and enables him to get quicker repeat orders after his original "lay-in."

Other Special Inducements. The free goods deal is only one of the many special inducements that are used in getting dealer cooperation. They include p.m.'s and demonstrations, and cooperative plans as previously mentioned. The free goods deal usually is used in selling the independent drug retailer because it is only with the independent that the free goods prove of general interest. The chain store, or the larger retailer, especially the department store, and others of that type, are interested primarily in the net cost of their merchandise and are not so susceptible to free goods inducements, expecting the manufacturer to lower the net price of an article to them by discounts, and so on. They prefer, and generally do, buy on a net price basis, and quotations are usually made that way.

DEALS ON A SEASONAL BASIS

Many manufacturers of a seasonal product find that it is to their advantage to offer their deals on a seasonal basis. In other words, cough product manufacturers usually start their deal efforts in June in an attempt to load the dealer with the merchandise that he is likely to use in the fall and winter. In addition to the advantages of the deal itself, this procedure gives the retailer ample forward dating on payment to cover the time that the merchandise is in stock. This practice also holds true with Christmas and summer merchandise.

The seasonal "lay-ins" were at one time consistently used. However, within the last few years, the ability to lay in stocks so far ahead of the selling season has declined for financial reasons, whereas loading is a declining practice largely from necessity, although better merchandising ability also plays no mean part.

DISADVANTAGES OF DEALS

While a free goods deal may be merely a reduction in price and thus be of some advantage to the dealer, there are still some disadvantages that may be mentioned. In a recent address before the N.W.D.A. the disadvantages of free goods deals were described as follows:

> (1) Deals militate against the small merchant since he is unable to buy in sufficient quantities to get them; (2) deals increase the operating cost of the retailer through causing him to overstock, thereby increasing his maintenance costs, such as insurance, investment, etc.; (3) by causing the merchant to overstock, deals give the store a crowded and untidy appearance and thereby tend to drive away the better class of trade; (4) they confuse the merchant on the matter of price. Deals of this character merely offer a quantity discount but in such a way that many merchants do not properly figure their cost and selling price; (5) they enable a cunning druggist to order a sufficient quantity to get the deal and then return the original quantity to the wholesaler for credit and keep the deal, thus getting the deal free. This occurs especially where the deal is shipped to the retailer direct from the manufacturer upon evidence of the purchase furnished by the wholesaler; (6) deals in the form of an unrelated article, such as a tooth brush with every tube of shaving cream, in which the retailer is to give away the unrelated article, tend to reduce the sale, and therefore the profit to be made on the regular stock of the unrelated item.

Therefore, in considering the size and nature of deals to be offered the foregoing must be considered so as to arrange the deal to overcome the objections enumerated above.

INFLUENCE OF DEALS ON DEALER PUSHING

As has been indicated, one of the reasons for offering "free goods" deals as quantity "buys" is the attempt to get dealers to give preference to the manufacturer's product. Practically speaking, it often shuts out competition because there is less likelihood of a competitor's merchandise being purchased in the same quantities if one manufacturer's goods are already on the dealer's shelves. The opportunity to secure effective display is helped materially. The manufacturer finds that by convincing the dealer of the advisability of buying in as large units as possible, he has these important advantages as well as others, such as increased unit sales, cost reduction, consumer interest, display tie-up.

The dealer himself feels when he pays the bill that he is getting some compensation for his increased purchase. He forgets that it might be more

economical for him to buy in smaller quantities because of the increased rapidity of turnover usual in cases of small, well-selected stocks of merchandise that his customers want.

Since it is impossible to get all manufacturers, or any but a few of them, to assume an altruistic point of view on this subject, and since the principle of loading still is thought to be desirable from the manufacturers' point of view, there is no doubt that deals will continue to be offered. However, the dealer's education is growing apace and with the help of wholesalers' restrictions, or poor business, and unhealthy general conditions, he is less and less inclined to overbuy. The practice will no doubt continue until such time as the manufacturers find that the disadvantages to them outweigh the apparent advantages. The retailers, however, may force the elimination of deals. Right now they have forced granting of deals down to a sales unit size undreamed of a few years ago. Deals figuring more than $5.00 are frequently unsuccessful in securing dealer interest and there have been some conspicuous failures when larger deals were offered. Since the costs incident to handling a deal of this size are rather high, relative to unit sales, manufacturers might find it to their advantage to eliminate deals altogether, place the product on a fair net basis, and spend the difference in increased consumer advertising. The failure of the deals in larger units than $5.00 can be definitely attributed to dealer resistance and inability to make larger purchases.

WHOLESALERS' REACTIONS TO DEALS

The handling of the free goods is more of a problem to the wholesaler than to the retailer. Manufacturers handle free goods deals in different ways and not all wholesalers are satisfied with the way that manufacturers expect free goods to be handled. These differences of opinion arise from the effort of both manufacturer and wholesaler to reduce the cost of handling. The opinion as to the value of free goods deals is not by any means unanimous among wholesalers either.

Opinions of the wholesalers are uniformly to the effect that the "free deal" does move greater quantities of the goods into the retailer's hands. A dozen of an item plus one to three on the side as "free goods" gives the dealer an incentive to push the product. He has tied up capital in it; sees the box with its dozen; he cannot ignore the display material flung at him with the "deal." Therefore, the dealer is more apt to find counter space for the goods, to display them, and, what is of final importance, to make a real effort to dispose of them. The deal, without question, tends to overstock the retailer. But coincident with that result, the deal also provides an urge to move the goods into distribution. Both these consequences are lacking where the retailer is permitted to follow his inclination merely to

replenish gaps in stock, which, under the teachings of strict inventory control and minimum stocks, would best be effected by ordering the awful "one-twelfth dozen" or, at most, "one-third dozen" of the item. The deal forces upon him thirteen or fifteen, often multiples of that quantity. For reasons such as these, wholesalers are almost unanimous in their belief that the free deal moves good—contrary as that belief may be to sound economics of the *a priori* type.

Under O.P.A. regulations, when free goods deals were offered for a period greater than 90 days, it was ruled a permanent reduction in price. With the scarcity of merchandise, deals have been cut down somewhat. However moving larger quantities of goods into the hands of the retailer is not the only consideration.

The wholesalers have been concerned about the objections to free deals for many years. In Bulletin 17 of the N.W.D.A. can be found a complete analysis of free goods deals, the objections to them, the arguments in favor of them, and the results from the procedure in certain cases.

In order for the manufacturer to realize fully just how the deals are handled by most manufacturers, it is advisable to consider the statistical records of the wholesalers on his free goods deals and methods employed generally in the distribution.

What is of particular interest also is the statistical record of the sizes of deals sold and the comments by the N.W.D.A., with their opinion as to what is best from their angle. N.W.D.A. feels that the deal that is the most economical for them to handle is also the most economical for the retailer. They look upon these phases merely from the standpoint of the cost of handling, turnover, and profit.

A complete perusal of this bulletin will give an unbiased opinion and analysis of the wholesaler's opinions pro and con of the free goods deal.

RESTRICTION ON FREE GOODS DEAL

In order to avoid an unsatisfactory sales situation one firm found it advisable for a time to restrict the offer of deals on their leading product to their salesmen only. The principle behind this policy was that if the wholesaler's salesmen could give the retailer the same deal that company salesmen can, the company's salesmen would not succeed in getting on especially friendly terms with the retailer and might fail to cultivate his good will. Inasmuch as it is advisable that the dealer be made fully acquainted with merchandising and advertising policies of the company, and the retailer is expected to devote a little time to the company's representative, it was necessary for the salesmen to have a proposition that would make them welcome at all times, and receive attention from the retailer. The results were interesting. In the territories where this policy was

consistently followed, house salesmen numbering less than 5 per cent of the total number of salesmen of the wholesalers outsold the wholesalers 10 to 1 in volume in the same period of time. This practice, of course, is not usual but may be adopted where the manufacturer has full sales coverage in a territory. Then the wholesalers' salesmen act as a supplementary selling vehicle. The plan should be used only where complete coverage can be made quickly.

PREVALENCE OF DEALS

Since the passage of the Robinson-Patman Bill, there has been some feeling that there would be a reduction in the number of deals that would be offered to the trade. Such is not the case, however, as a glance at any of the current deals used in *Drug Topics* or *American Druggist* will show them to be as numerous as they have ever been.

There is no doubt that the free goods deal is still of interest to the dealer; the wholesaler complains only about the method of handling; and the manufacturer gets larger sales units. How long it will continue important in this field is a question the future will answer.

It behooves every manufacturer to analyze carefully the particular free goods proposition that he has in mind; to set up in his own mind to what degree and extent to offer free goods deals, and how important the particular free goods deal may be to his whole sales scheme. Recently, Mennens, one of the large manufacturers that have been using free goods deals for years, discarded the practice and are offering their merchandise at net prices. Listerine has been doing the same thing for a considerable time. Still others are planing to do so in 1947. Better business conditions and the realization that loading the dealer with unnecessary merchandise is of no particular benefit may be responsible. That to which so many retailers and wholesalers have been looking forward—the elimination of the free goods deal—may be approaching. For the time being, at least, it would appear that this practice may have reached its zenith, and that we shall find over a period of time a gradual elimination of the practice, particularly by those firms whose products are well established and for which there is a steady demand.

It is quite obvious that the free goods deal which started as a price reduction for increased quantity loses its effect and purpose if it becomes a permanent reduction. Furthermore, the manufacturer who has already an established demand for his product does not need the free goods deal to create sales. He might well spend that money in additional advertising to create a greater pull for his merchandise from the dealer's shelves. With most retailers' inventories excessive anyway, the dealer himself is beginning to realize that it is of no advantage to him to buy in excess of his normal

rate of turnover. However, for the new concern in the field, or for the firm that is introducing a product that has not the background of previous contact with the field, it is advisable for the manufacturer still to employ those methods that have been used for many years so successfully.

In view of the general prevalence of deals to the drug retailer, it merely is a question for the manufacturer to decide:

1. Can I get larger introductory sales unit with a deal?
2. Will the reaction be favorable or unfavorable?
3. Can the discount to be offered be more advantageously spent in general advertising?
4. Is a free goods deal a necessity or advisable?

After this has been determined, a decision may be made. It is quite obvious that there are many favorable and unfavorable factors connected with the use of deals, so that a complete generalization on the subject is hardly the answer. As far as combination deals to the public are concerned, they are really advertising vehicles and should be considered from that angle only.

Chapter 11

METHODS OF OBTAINING DEALER COOPERATION

This chapter tells the reader about a variety of schemes that have been developed by producers of drugs and cosmetics to secure the cooperation of dealers at the point of sale of their products. These methods have been used for years. In essence they offer the dealer an opportunity either to buy cheaper or to make an extra profit in the hope that the dealer will put forth extra efforts to stimulate sales. Generally, these plans give only a temporary impetus to the sale of a product. However, since cooperation at point of sale (dealer's store) is essential to success, cooperative schemes can well be made a part of the marketing campaign.

COOPERATIVE PLANS

Since manufacturers and wholesale distributors have been prone to emphasize the power of the good will of the retailer in effecting the sales of a product, an attempt has been made to secure this good will by various cooperative methods. Illustrations have been given to show how the druggist frequently has an important influence on the sale of drug store products. If his cooperation can be obtained, sales volume will be increased or at least advertising efficiency will be stepped up considerably. Since national advertising has become the rule this cooperation may not seem to some to be so necessary; nevertheless, we hold it advisable to secure it.

We think that securing the cooperation of the dealer is still an important part of any selling plan just as it was acknowledged to be years ago. During the past thirty years, some firms have tried many methods to secure this cooperation. Generally each was more or less successful, until it became conventional, and then economic and competitive conditions seemed to cut down its efficiency.

During the past fifteen years, we have seen plans put into effect by manufacturers with independent retailers, by manufacturers with distributors, by wholesalers or distributors with retailers, and by manufacturers and distributors with retailers. The purpose of these plans is to secure the dealer's cooperation in pushing the sale of specific products and to eliminate, as far as possible, price cutting. The drug industry, since the introduction of mass distribution methods, has found it necessary to help the independent retailer, thus making necessary cooperative methods.

With the rise of the chain store and the adoption of loss leader methods to bring customers into stores, the independent retailer found it almost impossible to make a profit on the quick-turning products. He has been compelled to turn his efforts to the pushing of products that offered a profit, and he has been on the whole very susceptible to any plan that presented the opportunity of earning a normal profit as against the fruitless battle to match price cuts with the average chain.

The chain has also educated the retailer to become a better merchant. The retailer has copied the methods of the chain in his merchandising and has cashed in on the particular benefits that accrue to him by cooperating closely with manufacturers.

Cooperative plans may be divided into three classes, as follows:

1. Exclusive distributional rights.
2. Retail ownership.
3. Partnership and stock ownership.

Different firms have found it advisable to work under the respective plans, or combinations of them, and we shall show how some of them have worked out in actual practice.

Exclusive Distributional Rights. The first type of cooperative plan is that of giving protection to dealers by conferring exclusive distributing rights.

Rexall Exclusive Agencies. One of the first of the successful cooperative plans to obtain dealer good will was the Rexall dealer's plan of the United Drug Company. A number of years ago, when price cutting was started on a proprietary called Vinol, the company manufacturing Vinol appointed in each locality an exclusive agent whose purpose, naturally, was to maintain prices in the territory; and an attempt was made to confine the products to these agents only. In 1903, with these agents as a nucleus, the United Drug Company was organized by L. K. Liggett; in the same year the Rexall line of nonsecret drug preparations was introduced to the trade.

The Rexall franchise, after the products had been effectively introduced and supported, became very valuable, and the Rexall dealer in each community had a monopoly on the preparations manufactured by the United Drug Company. Merchandising plans designed by the company to stimulate sales were presented to the dealers for their use from time to time and in that way the retailer was able to compete successfully with his neighbor in the nonsecrets and proprietaries and to receive a fair price for his product, for not only had he the advantage of buying at reasonable prices, but also he was not subjected to price cutting on Rexall merchandise.

However, there was some hindrance to the forward progress of merchandising through this method. There are many products in the drug store the brand of which has no particular significance to the consuming public. In other words, many hundreds of products are sold to the customer who comes in and merely asks for a package, for instance, of aspirin, or bicarbonate of soda, or some other product. Consequently, with the passage of time, and as general advertising behind specialized drug products became more intensive, the efficiency of the United Drug plan became lessened and the druggists' pushing of Rexall products became less and less effective. Then the United Drug Company organized a chain of retail drug stores known as Liggett's. This was an outgrowth from one of the stores of a Rexall dealer that came on the market through a bankruptcy. For a number of years Liggett's continued to acquire stores in various communities where Rexall merchandise was sold, and expanded so rapidly that now they are one of the largest retail chain drug outfits in the field, operating over 600 stores in the United States and Canada.

This organization of chain stores serving as outlets of the manufacturing company did not altogether solve the merchandising problem. Independent individual specialties became increasingly important and in some cases dominated their respective fields. Finally in 1929 the United Drug Company found it advisable to purchase the ownership of a number of the specialties that had grown to formidable size in the interim. The individual specialties became much more important in their respective fields than the products put out under the original Rexall mark. Advertised products and other push products had decreased the importance of Rexall merchandise even to the manufacturing unit that owned L. K. Liggett stores.

The fickle public favor could not be held. It was another illustration of the power of advertising as against dealer pushing, and Drug, Inc.'s venture into purchasing products competing with Rexall items that had acquired large public favor is self-explanatory. However, the attempt to ride on both sides of the fence did not prove satisfactory.

It appears that the Rexall brand influence on the sales of the United Drug Company had gradually been reduced as attention was now being brought to bear on the other trademarked products brought under the control of Drug, Inc. As a result of the merger, there was a sharp conflict in merchandising plans and ideas. The proof that an organization cannot operate successfully with radically divergent promotional plans would seem to be evidenced by the split-up of Drug, Inc., and the restoration of Sterling Products, Inc., Vicks, Bristol-Myers and the other units to their original independent, self-contained status.

Retail Ownership of Manufacturer. A cooperative setup was tried by

another large organization, which started about five years after the United Drug Company-Rexall venture, known as the American Druggists' Syndicate. This group was organized along the same general lines as Rexall, with the exception that druggists were invited to participate in the profits of the company through the purchase of stock. At one time it was believed that close to 60 per cent of the druggists in the country were members of the American Druggists' Syndicate.

However, through merchandising methods that seemingly were not altogether successful and changing economic conditions, plus the fact that individual advertised products became increasingly dominant, the importance of the American Druggists' Syndicate to the individual retailer became less and less. This organization, too, found it advisable later to purchase a number of advertised products and coordinate the selling efforts of both groups of products, but has had considerable difficulty in the past few years in regaining the hold on the retail druggists of the country that had been lost. This, however, cannot be blamed so much on the failure of the cooperative plan as on the limitations of management, changes of public favor, and increase in specialty domination of individual items. The result is that in the past few years the greatest volume of business has been done on the advertised items of the syndicate. A few of the old "push" specialties have been reasonably successful but not sufficiently so to indicate that the pushing principle outweighs intensive, national advertising. The company is now concentrating more and more on increasing its efforts behind a few of its nationally advertised products. However, since the company's stock was listed on the stock exchange, no doubt a large number of druggist stockholders have sold their interest, so that it may no longer be considered a cooperative organization.

Partnership and Stock Ownership. The plan of the Ex-Lax Company was in the nature of a combination of the United Drug Company plan and the American Druggists' Syndicate plan, with the exception that the efforts were put behind one specialty only, the laxative Ex-Lax.

At first, when the merchandise was offered for sale by the two former wholesalers who started the company, they offered dealers, in order to induce them to push the product, stock in the company for window cooperation, for counter display, for active sales cooperation, and for large-scale purchases.

Then later, since the stock had not paid any dividends, dealers would complain to the company's representatives about the value of the stock that they were offering, and, in many cases, they would sell the stock back to the company for a quantity of merchandise that was offered in exchange. The basic plan involved here was to give the dealer a financial interest in the company that he might help build up by his efforts.

The company was unusually successful. The company gradually increased its sales and its distribution, and after a time the stock, which in the beginning was looked upon as being almost worthless, became quite valuable. Many a retailer has hunted long among abandoned papers for the certificate that he had cast aside with derision, as soon as he discovered that the stock had a market value, and when he received a considerable cash offer for his holdings.

These three methods are typical of some of the early efforts to secure and hold dealer interest.

The Rexall plan, which grew out of the Vinol Distributors plan, was an exclusive distributor's arrangement.

The American Druggists' Syndicate plan involved an investment by the retailer in the stock of the manufacturing company and the assurance to him of cooperative profits in a company he owned in exchange for his cooperation.

The Ex-Lax plan provided for the distribution of stock free in the hope that the dealer, by his cooperation, would help make the stock valuable, and as a result the dealer would profit in addition to the profit on his merchandise.

One of the fallacies that has been emphasized under these various plans is that large quantity discounts are beneficial to the retailer. Most of the evils of price cutting can be laid at the door of quantity discounts. For this reason some of the methods adopted have looked toward the elimination of quantity discounts. The appointing of an exclusive distributor was the method used most frequently.

In all cases, the elimination of price cutting by restricting competitors was one of the reasons advanced, although for the Ex-Lax Company, manufacturers of a specialty, this was not as important a consideration as for Rexall and the American Druggists' Syndicate as these companies offered complete lines of practically all nonsecret remedies—in competition with heavily advertised price-cut specialties. In the latter two cases, the dealer was given the opportunity of fighting price cutting by pushing specialties not on the shelves of other dealers, as in the beginning only stockholders in A.D.S. could buy their merchandise.

These three are illustrations of many attempts since made along similar lines to obtain retailers' cooperation and to secure selective distribution. These cooperative plans are offered usually by manufacturers who have a general line of drug products to sell. Between the years 1905 and 1915 the number of companies starting under these plans were many—comparatively few survive today and those that are in existence have changed their setup radically.

EXCLUSIVE DISTRIBUTORSHIPS

The above period was succeeded by an intermediate period during which independent manufacturers tried to insure dealer good will and cooperation without actually interesting the dealer financially in the manufacturing company. The more recent methods attempted have usually been those of exclusive agency or distributorships with special price concessions and bonuses for active dealer cooperation.

The basic reason for these special deals is the same as under the previous plans, that is, to try to secure dealer cooperation by assuring the retailer a long profit when handling a line of nonsecrets such as mineral oil, rubbing alcohol, aspirin, Castoria, and other similar products.

These efforts led retailers to believe that their window and counter displays were worth money and it became necessary for the manufacturer to create a receptive attitude in the mind of the retailer to secure from him adequate display and proper featuring of the lines offered him.

Most firms who adopted the policy of giving the retailer an exclusive arrangement found it to their advantage to maintain a fixed wholesale price without any quantity discount that would interfere with and tend to demoralize the retail sale price. Most retailers, it is believed, are of the opinion that a uniform level of prices is more satisfactory, and, through the cultivation of this feeling in the independent retailer, a wider distribution of the product was possible.

DISTRIBUTION THROUGH WHOLESALERS

Some manufacturers distribute their output entirely through wholesalers and it is well at this time to call attention to two modern methods of distribution that call for dealer's cooperation and that still, in their details, are radically different.

Eli Lilly Plan. The first is the Eli Lilly method of handling pharmaceuticals. This firm does all of its business through wholesalers. The merchandise that the dealer wants is purchasable only through the wholesaler, and it is remarkable, indeed, to know how uniform the prices of their products are and that all the wholesalers, who are selected with extreme care, maintain full prices on all products to the dealer. Incidentally, when operating through wholesalers, control of the wholesalers' price is simple. Wholesalers are usually selected because of their ability and their general recognition in the trade. They are confined largely to members of the N.W.D.A., who comprise the service wholesalers of the United States as contrasted with the F.W.D.A., who comprise the mutuals explained below. By agreement, service wholesalers are always willing and glad to maintain manufacturers' list prices to the trade and will do so on request, at any time, for any manufacturer.

Squibb Plan. Against this we match the Squibb Plan adopted in 1930. The firm of E. R. Squibb and Sons also manufactures pharmaceuticals. This plan required the individual, independent retailer to invest $500 in the stock of the Squibb Plan, Inc. On this stock the retailer receives 6 per cent interest and at the end of every year he receives his share of one half of the net profit of Squibb Plan, Inc. in the form of a rebate made by the manufacturer on the retailer's purchases. It is interesting to read the details of the Squibb Plan as published by the company:

For each share of distributors' stock issued, E. R. Squibb and Sons agreed to sell at the same price one share of its common stock to Squibb Plan, Inc., up to 50,000 shares. In addition, the Squibb Company agreed to pay into the treasury of Squibb Plan, Inc. 10% of the actual purchases of all members of the Plan, and 10% additional on the aggregate increase in purchases over the preceding year's purchases. These amounts, together with the income from Squibb Company common stock, are to be first used to pay the dividend on the preferred shares of the Plan. Then the balance is to be divided equally between the manufacturer and the distributors, the latter to be paid in the proportion to the amount of their purchase.

Eli Lilly and Squibb Plans Compared. It is interesting to check the difference between the two situations of these long-established manufacturers. Both firms have merchandise that the druggist cannot be without. Although their methods of interesting the dealers are different in detail, they are the same in their realization of the fact that the independent retailer is a necessary factor in any proper distribution of any product. There is a very marked difference in the character of the merchandise handled by each. The Eli Lilly products are not asked for by the general public as they are sold only on prescription or recommendation of physicians. Squibb, while manufacturing the same type of products as Eli Lilly, also manufactures a number of household specialties that the dealer can be expected to offer to the public in lieu of advertised merchandise that may be cut. They include mineral oil, aspirin, and many others. Here we have one manufacturer with no general public demand maintaining distributors' good will by restricting competition and another manufacturer by a profit-sharing arrangement of investment and sales bonus helping to put over both proprietary and push items. Comparison of the effectiveness of the two plans is not possible, because the businesses, although competitive in pharmaceuticals, are not otherwise, since Squibb has many other advertised products to sell that give the retailer a much greater opportunity of making money on his investment in the Squibb plan.

McKesson and Robbins' Plan. After the merger of many wholesalers into the McKesson and Robbins Company, a new cooperative plan was presented to the dealer. The McKesson and Robbins plan was very similar to the original Rexall plan in that it tried to tie up the retailer as a purchaser

of a special line of nonsecrets that are available to him only through his regular service wholesaler, or one of the constituent members of the McKesson and Robbins group. The difference between this method and the Rexall is that no retailer has an exclusive territorial or community arrangement. There is no franchise. In view of the fact, however, that the merchandise is purchased from the wholesaler, and that the wholesaler has considerable control of most of his retail customers through credit extended and otherwise, it is possible for McKesson and Robbins to obtain a reasonable degree of dealer pushing for these products that are not asked for by brand name.

After all, the value of a plan depends upon its success. The possibility of the success of the McKesson and Robbins plan may be seen from the fact that the McKesson and Robbins dealers as well as branch houses are placed in the anomalous position of being manufacturers when they are selling McKesson and Robbins merchandise, and wholesalers when they are selling the merchandise of other houses. McKesson and Robbins was able to concentrate its pushing of all the private lines of the respective houses into one line and in this way a considerable concentration of effort was effected.

DEALER REACTION TO PUSH LINES

Generally each retailer can select the line of merchandise to push, but he is compelled by the force of public demand to carry all of the leading products, whether he likes to or not. The result is, therefore, that while he may, after considerable effort, get a decent profit on a portion of his sales, the total sales of all the competing products together that have public favor are far greater than the sales of the products that he can control; and therefore these become decreasingly important to his general sales volume. Since the passage of the Miller-Tydings Act and the various State enabling Acts it is evident that as the dealer received better prices on his cut items, he was less inclined to push private lines, because dealers are human and like to follow the line of least resistance. Offering the public an advertised item generally does represent the line of least resistance when selling goods, and the demand for products by brand name is increasing steadily. The continuance of this condition depends entirely on the retention of the Miller-Tydings Act which the Federal Trade Commission is opposing.

SPECIAL CONCESSIONS AND COOPERATION

Sometimes active cooperation can be purchased by giving the retailer credit concessions. We have touched upon this previously, but there is one plan that has been used by a number of firms from time to time that has proved rather successful in gaining dealer cooperation, and at the same

time, cutting down credit losses. This is known as the contract method, with payments for merchandise in advance.

Under this plan as usually applied, the dealer agrees to buy a minimum quantity of merchandise over a twelve-month period, possibly $100 or more, for which he pays in advance by giving postdated checks or notes falling due at monthly or bimonthly intervals. The dealer, because he pays in advance, gets an extra discount or bonus in merchandise. This plan is workable if the dealer can use a quantity large enough to warrant his signing such a contract.

With some manufacturers the dealer can take in the purchase at one time. With other firms he has been permitted to use the goods as he needs them and not to overdraw his checks, or, at least, not to get more merchandise than is covered by the checks that have cleared the bank.

The manufacturer gains many advantages under this method. He is assured of a uniform volume of sales. He knows that the dealer will use his utmost efforts to dispose of the merchandise contracted for, and he is assured of a regular flow of cash for the goods without the expense of attempting to collect for the purchases in the usual manner when selling direct.

The dealer naturally thinks that he is receiving a price concession. He knows that a certain quantity of merchandise is purchased at regular intervals and generally he uses his efforts to sell the goods as fast as he can, especially since he knows that they will have to be paid for and that the payments are made automatically once the contract has been entered into.

The Ex-Lax Company is a conspicuous example of a firm that was quite successful with this method, after they discontinued the practise of giving away stock certificates and after their product had reached the point of consistent demand.

On two occasions, once in 1918 and again in 1930, the Crystal Corporation, finding it necessary to assure themselves of a steady volume of sales and remittances, used the same method. As a matter of fact, both Ex-Lax and Crystal used this plan for a number of years and found it very desirable in selling the retailers direct, at a minimum of credit losses with but comparatively little collection and sundry expense. However a plan of this kind can be used only where the dealers have sufficient confidence in the firm and the product sells freely to contract for merchandise to that extent and pay for it in advance.

CHAIN DEPARTMENT STORES AND COOPERATION

From the above it will be noted that most of the cooperative plans that have been described have related almost exclusively to the independent retailer. When it comes to cooperation from the chain stores and department

stores, cooperation must be boiled down to a question of price. Most department and chain store organizations demand cooperative advertising. This cooperative advertising may take the form of a direct allowance in the shape of a discount on purchases in exchange for active cooperation. The danger in this method lies in the fact that unless a clear and concise statement of what is expected in the form of cooperation is agreed upon, the expected cooperation may not be forthcoming.

In some cases p.m.'s are offered to clerks of the retailers—sometimes by the manufacturers and sometimes by the chain organizations. This is especially true with some of the chains.

Department store cooperation is generally obtained when advertising over the store's name is paid for by the manufacturer or by an extra concession on prices. Department stores also, especially in toiletries, are the beneficiaries of the hidden-demonstrator system. This type of cooperation, which is really nothing else than the manufacturer paying for the sales clerk, was widespread in practically all department store toilet goods sections prior to adoption of N.R.A. codes. It was then discontinued for a time, and then revived greater than ever. The passage of the Robinson-Patman Bill does seem to leave uncertainty as to the future of hidden demonstrators. The Federal Trade Commission has issued a number of citations against firms who are using hidden demonstrators, but so far, the practice is still in vogue and has not been discontinued to any great extent. As a matter of fact in many large department stores practically every toiletry sales clerk is a hidden demonstrator. It must be beneficial, as so many firms find it to their advantage to use the system. Most stores are still in favor of demonstrators. However, some stores have found that the customer reaction is not especially favorable. There have been occasions, particularly in the case of certain department stores, where hidden demonstrators in stores are permitted, yet these same stores may have similar products under their own names to match nearly every toiletry product in the store. They have found that pushing their own lines is still more profitable, even when manufacturers pay most of the salaries of the clerks in the department.

The buying of this form of cooperation is purely one of individual bargaining. This represents not the settlement of a large basic policy but rather individual trading, depending upon circumstances in each territory; and the cloth must be cut to fit the pattern of each situation. Here the manufacturer is called upon to buy his cooperation in each store and pay whatever price he thinks the cooperation is worth, and what is demanded for it. In an outstanding department store that dominates many retailers in the state the price may be high and at the same time worth it.

MAIL-ORDER HOUSES

Cooperation as defined by the mail-order houses means payment for the space used in the catalogs. It is certain that mail-order houses will not take on products that they think they cannot sell, but, at the same time, they expect pay for the space they give each product. Some mail-order houses expect inside discounts, and others, actual payment per square inch of space used. Since the results of any such payments are easily checked, this form of cooperation at least can be made to pay its own way or dropped before commitments become heavy.

RETAILER-WHOLESALER COOPERATIVE METHODS

We have treated so far only those methods employed by the manufacturer. There are, in addition, two other plans that the retailer himself has developed for his own benefit that should be mentioned: (1) the Mutual Wholesaler Plan; and (2) the Local Buying Group.

The Mutual Wholesaler, started originally by the Philadelphia Wholesale Drug Association, is a wholesale organization formed by retailers in which each retailer purchases a franchise through the investment of a certain minimum sum of money to help finance the organization. These organizations take orders from their members only over the telephone, and they extend credit for no more than one week. In such ways they keep overhead down to a minimum. As a result they are able to offer the retailer a concession usually of as much as 10 per cent on the purchase price of all drug products bought through the wholesale organization. This situation places the retailer in a better price position for competition with other stores.

The Buying Group. The local buying group usually consists of a group of anywhere from five to fifty retailers in contiguous areas, who get together and select one individual to purchase merchandise in large quantities in order to take advantage of all available quantity discounts; he distributes the goods to the individual members. These groups usually exist only in so far as they gain the intense interest and active guidance of one or two outstanding individuals in the group. Generally after a period of time, individual jealousies crop out and tend to break up the groups so that in the main they are short-lived, although their purpose is gained in making purchases at more attractive levels for a limited period of time. The retailer generally suspects group activities. The druggist because of his professional background is afraid of losing his identity or individuality and so fights shy of buying or advertising group activities.

In the case of the mutual wholesaler, when cash was plentiful and the retailers were in a position to pay their bills promptly, the Mutual was able

to make serious inroads into the business of the regular wholesaler. However, as soon as economic conditions changed these circumstances, the service wholesaler who extended credit was once again able to do his fair share of business in competition with the Mutual. The Mutual's great bait was discount and this was usually met by the service wholesaler who also extended credit, so that competition in this connection is as keen as ever. Generally the Mutual wholesaler also marketed his own line of nonsecrets and the effect of the promotion efforts on the dealer were similar to the McKesson and Robbins push-line plan except that the druggist had a stock interest in the company.

Chapter 12

MISCELLANEOUS SALES PROMOTIONAL EFFORTS

In this chapter the reader's attention is called, first, to the variety of trade associations in this field and the type of cooperative activity to which they are committed in advancing the interests of their members. Membership in some, if not all, of these associations is desirable for the producers of drug and cosmetic products for the contacts they can make and the prestige they can assure. Second, attention is called to a variety of devices other than personal selling that can be used to reach the dealer to interest him in a line and secure his cooperation.

In attempting to acquaint the reader with the methods of reaching the dealer other than by the employment of salesmen, we are confronted with the problem of where dealer sales promotion aid to salesmen stops and consumer advertising begins. For the purpose of our study, we define "advertising as the expenditure of effort and money to reach through mechanical means the ultimate consumer, that is, the last user of the product." Dealer sales promotion, on the other hand, is the expenditure of effort and money to influence and guide the actions of the distributor or retailer, with a view of placing merchandise where it is readily available to the consumer. The proper understanding of these miscellaneous efforts which come under the head of dealer sales promotion is best assured through a consideration of the organization of the drug industry.

ORGANIZATION OF DRUG TRADE FOR COOPERATIVE ACTION

The drug field is particularly fortunate in being well organized from its base, the retailers at the bottom, up to the manufacturers at the top.[1] In considering the marketing of our product, we shall probably find that we are able in many ways to make use of these organizations, which exist to serve their respective branches of the drug field. Each manufacturer should bear in mind that only through organization and cooperation with his fellows can he obtain the best knowledge and assistance to solve the various problems that confront him at all times.

Manufacturers' Associations. The first group of organizations to be considered are the manufacturers' associations. The principal ones are the following:

[1] "The Organization of the Drug Trade," *American Druggist*, N. Y., 1931.

American Drug Manufacturers' Association
American Pharmaceutical Manufacturers' Association
Proprietary Association
United Medicine Manufacturers' Association
The Package Medicine Association, Inc.
The Toilet Goods Association
Drug, Chemical and Allied Products Section of the N. Y. Board of Trade
National Association of Insecticide and Disinfectant Manufacturers

The purposes of each group vary in detail but the general purposes are similar. Whether fortunately or not, drug products have always been a victim of what at times seems to be hasty and careless health ordinances and other legislation. Most of the efforts of the associations mentioned above have been directed toward the elimination of what they understood to be unsound trade practices and of the hasty, careless, and often costly legislation frequently proposed. At the same time, they serve as a clearing house for members with like problems to assist one another in solving them to their mutual advantage. Illustrative of these problems are the "bootlegging" or "counterfeiting" of legitimate products, which assumes large proportions in the United States, and the substitution of one make for another now practiced on a wide scale by counterfeiters, the local board of health regulations, state special taxes and registration fees, and clarification of Pure Food, and Drug, and Cosmetic Act regulations and administration.

Any manufacturer can find it to his advantage to join the associations organized to solve the problems in the individual manufacturer's field of operations. Any manufacturer can find out in detail the uses and purposes of the respective associations from their headquarters.[2]

Wholesalers' Associations. While this volume does not concern itself particularly with wholesaler organizations, except in so far as they relate to retailers' operations, the wholesalers are now found in four general groups as follows:

National Wholesale Druggists' Association
Federal Wholesale Druggists' Association
McKesson-Robbins Group
Druggists' Supply Corporation

The largest of these associations is the National Wholesale Druggists' Association because of the many manufacturers in its membership group.

It will be noted that one of the groups, the McKesson-Robbins Group, is actually a consolidation of a number of independent firms and really is

[2] See *Drug Trade News Fact Book* for complete data of these associations.

not a trade association. It is a privately owned corporation. It is included in the group because it controls many wholesale houses and faces many of the problems of a wholesale association. The other one is strictly a trade association of individual wholesalers working together for their mutual advantage but operating for financial profit—which is distributed among the owners.

These associations consider the problems of the wholesalers as they arise, both those that arise from economic and political conditions and those that result from the actions of manufacturers and retailers.

The National Wholesale Druggists' Association has for its purposes the following:

> Whereas, It is desirable to promote fraternal and social relations between the wholesale druggists of the country; to guard against feelings of distrust and jealousy that may at any time arise; to discountenance all customs not in accordance with sound business principles, we do form ourselves into an association, and will be governed by the following Constitution and By-Laws.

Buying Organizations. There are two large buying organizations for the chains in the industry, the Affiliated Drug Stores and the Associated Chain Drug Stores, both with their headquarters in New York City. These groups represent primarily buying organizations of chain stores, the purpose being, as far as possible, to effect further economies in purchasing. They act as general clearing houses for new products, for the discussion of merchandising plans, the elimination of unsound trade practices, and the consideration of numerous other problems.

They hold conventions annually and semiannually and many manufacturers find it to their advantage to attend them so as to keep in touch with what these organizations attempt to do.

Professional Organizations. There are a number of professional groups with which we are not concerned. They are mentioned at this point as a matter of record. These organizations function largely in the field of professional ethics and research for the benefit of the members thereof. Their research findings may, however, aid a manufacturer in the development of a new product; their development of ethics may turn into a solution of a marketing problem. They are as follows:

American Registered Pharmacists' Association
National Drug Trade Conference
American Association of Colleges of Pharmacy
Drug Trade Bureau of Public Information
National Conference of Pharmaceutical Research
Conference of Pharmaceutical Law Enforcement Officials
Conference of Pharmaceutical Association Secretaries

National Association of Boards of Pharmacy
American Pharmaceutical Association
United States Pharmacopeia
Council on Pharmacy and Chemistry (A.M.A.)
Council on Dental Therapeutics (A.D.A.)

Retailers' Associations. The retailer can be found attending the meetings of one of three groups, the National Association of Retail Druggists, which is the national organization representing a number of retailers' state associations. He may be active in the state associations that are to be found in every state in the union, and their membership is composed of a number of local organizations in counties, or, as in the case of New York, he may be a member of a sectional group that, in turn, is a member of the New York Pharmaceutical Conference. The various organizations cooperate with one another from time to time in combating legislation which interferes with the earning of profits.

Of late years, discussion in these local association meetings, state associations, and even national associations of retailers, has departed from the purely professional questions such as revision of state pharmacy laws, revision of *United States Pharmacopeia,* and other similar problems, which used to be the order of the day. Now they frequently discuss, violently at times, the individual methods and policies of firms whose operations have not met with general trade approval, making specific reference to offending members of the industry. Such discussion is sometimes followed by action accepting or rejecting a marketing policy used by a concern selling to the retailers. This may in turn have an effect on one's attempt to sell to the members of such an association, since it may in effect become a boycott.

We do not mean to imply here that boycotts are consciously entered into, but rather that where a manufacturer's policy is distasteful to some members of an association, discussion brings it to the attention of many who then individually decide they do not want to trade on the basis of such policies. These individual decisions become virtually group action, whereas before the discussion only a very few might have gone so far as to reject a particular manufacturer's product or line of goods. There are even some rumors that now and then a misguided member of such an association will individually try to bring pressure to bear on members who still patronize a manufacturer whose product has become taboo.

This tendency in discussion has frequently benefited business. It has resulted in the clearing of the atmosphere on many disputed policies and methods of operating that had apparently been unsatisfactory, and that had met with considerable disapproval. It has enabled the manufacturer to ascertain quickly the desires of the majority of active dealers and to

change his policies to meet, as far as possible, conditions that make for more efficient marketing, and better understanding between the manufacturer and the retailer.

Further efforts of these associations were directed toward securing price legislation and until the passage of the state fair trade laws and the Miller-Tydings Bill, these were among their principal objectives. Now, they are keenly interested in making these laws effective and discussion has to do with attempts to cooperate in the enforcement of these laws, which at the moment must be policed by the industries concerned through proper court action.[3] Another subject of current discussion is: "How to reduce the number of competitive items, sizes, and so on."

Manufacturers' Contribution to Wholesalers' and Retailers' Organization. All manufacturers are expected, in one fashion or another, to contribute, in person or otherwise, to the efforts of both the wholesalers' and the retailers' trade associations. Those firms that manufacture technical products even join the professional associations by invitation. The type of contribution takes many forms. The manufacturer may become an associate member of the wholesaler's association. Such a membership may cost $100 annually and it gives him certain privileges and rights; it enables him to attend the conventions that are held regularly and to become acquainted with his distributors. At these meetings he meets the leaders of the industry and later has the opportunity of becoming really known to the groups he is soliciting. In addition, he is expected to cooperate in special drives initiated by these associations for the benefit of the industry in general.

The individual retailer and retail organizations also call upon the manufacturers from time to time for money assistance in large or small amounts. These calls generally take the form of requests for the purchase of tickets to trade banquets, donations, door prizes and other similar requests. Advertising space in the program is frequently purchased by manufacturers. Most manufacturers see to it that their representatives in the territories attend these banquets at the firm's expense

While it is problematical as to just what effect this form of "promotional" or good will advertising has on the manufacturer's standing in the trade, still, the situation being as it is, and trade custom demanding some sort of cooperation of this type, the manufacturer is expected to do his share. It is all part of the general effort to build good will. Usually the recommendation of the representative in the territory should be followed in this respect. It will be recalled, in this connection, that a few years ago the manufacturers of Pepsodent contributed $25,000 to the National Asso-

[3] See any issue during 1940 of *New York State Pharmacist* for evidence of this type of activity.

ciation of Retail Druggists, when it was in the midst of its drive to secure price maintenance legislation. The Pepsodent Company advertised the fact, to call it to the attention of members of the association, and it is obvious that they did this hoping that the good will of the druggists would be secured.[4]

THE PROBLEM OF REACHING THE DEALER

Because of the discussion and actions of the associations, a manufacturer is enabled to develop basic policies so as to conform with the general opinions of the trade. After policies have been developed the manufacturer must use the means at his command in advising and informing the retailer what is available and what his methods of operating will be.

Sales Promotion Through Association Papers. One of the quickest ways to reach the dealer and to inform him of products, changes in products, policies, and other important facts is through his trade papers. Trade papers are divided into three general classes:

1. The trade papers of local retailers associations.
2. Sectional trade papers owned privately and circulated in limited areas.
3. General and national trade papers.

Local Trade Papers. We start this discussion with the small neighborhood and city association papers because they are the basis for reaching the local trade. The use of the local trade paper depends upon the field that is to be covered. Some of these trade papers have very wide circulation in their respective territories. *The New York State Pharmacist,* for instance, a monthly published originally by the New York Pharmaceutical Association, covers the entire metropolitan area thoroughly. It had a circulation in 1946 of 6,670 and its rates were $135.00 a page.

The *Philadelphia Retail Drug Journal* and the *Chicago Retail Drug Journal* are published by the local associations and are sent to each of their members monthly. In both of these places the membership of the association comprises a large majority of the dealers in the territory. Particularly for unusual offers, these special local publications can be used advantageously although most of them appear only monthly. These local papers are generally found just in the larger cities because there the membership is large enough to warrant a paper of this type. Advertising in these papers is usually looked upon by retailers as support of the local groups and may gain the manufacturer some good will.

[4] See *National Association of Retail Druggists Journal,* Aug. 26, 1937, pp. 1286–1287.

Sectional Papers. The next group of trade papers that we have as an aid to our sales promotional efforts is the sectional papers. Usually each one embraces a fairly large section of territory, and along geographical breakdowns. The principal journals of this type are the *Northwestern Druggist, Southwestern Drug Journal, Southeastern Drug Journal, Pacific Coast Drug Journal.* Some of these trade papers, because they are published by wholesalers, are practically house organs. A journal of this type may enable a manufacturer to reach the dealer who is outside some local city association or whose state association does not publish a journal, and who, consequently, keeps informed of conditions in his territory through the medium mentioned above.

All of these papers carry, as a rule, the advertising of most of the leaders in the field, give the manufacturer active cooperation, are read with interest by the dealers, and lend considerable prestige and assistance to the manufacturer should he be covering the particular territory in which the journal is published. The dealer very often gives good attention to his sectional paper because of the close contact it gives him with his wholesaler and the news of his state association activities.

National Media. After we have considered the sectional media, we must next take cognizance of the national media, which reach not only the retailer but the wholesaler and manufacturer as well.

National media can be divided into two classes: (1) the media that are intended for the manufacturer, as trade papers of his own, and that keep him posted on the latest methods, problems, and questions that are of interest to him; and (2) the media that reach the druggist, and that are the only way of covering all retailers in the field through one or two media.

The principal national media of the first mentioned classification are the following:

American Perfumer
Drug and Cosmetic Industry
Drug Trade News

The retailer' papers that reach the druggists on a national scale are as follows:

American Druggist
Chain Store Age—Drug Edition
Drug Topics
National Association of Retail Druggists Journal (an association paper)
Beauty & Fashion

No attempt will be made here to weigh the values of the respective publications in so far as they may help the manufacturer bring his product to the

attention of the retailer.[5] There is no doubt that the continued success of these publications and their intensive circulation in the field make it necessary for a manufacturer who is attempting to do a national sales job to consider them seriously. They enable a manufacturer to bring his product to the attention of the retailer and the wholesaler at a reasonable cost. Each of these publications can give the usual analysis of circulation and copies of surveys revealing the regard in which they are held by their subscribers.

Although these national trade papers are designed primarily for either the manufacturer or the retailer, there seems to be no question but that the wholesalers read them; and even the wholesaler's salesmen who wish to keep abreast of the latest conditions are to be found reading the papers with considerable interest.

The publications vary considerably in physical size and in the general treatment of the subjects they cover. They also vary in the method of distribution. Some of the papers are distributed only by paid subscription. Others are distributed gratis to the retailer. The oldest and largest, *Drug Topics,* is distributed to the customers of wholesale houses located in every section of the United States. The latter publication, starting as a pocket size monthly magazine, is now a biweekly newspaper, tabloid in size, and gives up-to-the-minute news of the industry to the entire retail field.

Because so many products are now being offered to the retailer, the trade paper in the drug field may have considerable influence in introducing a product to the dealer quickly and cheaply. The editors and publishers of these trade publications are highly regarded by most of their readers everywhere. These papers are constantly being studied for the improvement and betterment of the economic conditions of the trade. Therefore, when advertising in one or more of the trade publications is undertaken it helps the newcomer to attain prestige and standing. The result is that the way is prepared for the salesmen's efforts. Advertising in the trade publications helps break down the resistance of the retailer to new products and makes the dealer feel that the manufacturer's product is not altogether strange and that one can have confidence in the manufacturer's proposition and believe in his integrity.

Reaching Dealer by Direct Mail. Whereas trade papers represent the quickest and usually the most effective method of placing a product before the dealer, and of gaining the prestige necessary to establish a firm in the eyes of the dealer, other methods to accomplish these same results are also employed.

[5] Full details as to circulation, and so on, can be found in *Standard Rate and Data* or secured from the publications direct.

Mail pieces are used consistently by many producers to tell retailers about drug propositions or deals. These mail pieces may be divided into two classes: (1) general mailings by the manufacturer direct; and (2) enclosures of manufacturers' circulars or cards in the regular mail from wholesalers to their customers.

Mailing from Manufacturers. Broadsides and circulars are used constantly by manufacturers. They take various forms and shapes; they may be quite elaborate or plain and inexpensive. Their effectiveness will be proportionate to the interest that the dealer may have respecting the proposition that is placed before him, assuming that the mail pieces are so constructed as to attract and hold the attention of the reader.

The types of mailing pieces to use will be determined by the size of the line, the extent of coverage wanted, the needs of each sales campaign, and the budget available. It should be noted, however, that the dealer's mail is so crowded with circulars that very often the effectiveness of the mailing piece may be small. The best counsel on direct mail should be consulted in the preparation of such mailing pieces. That this is desirable may be seen from a recent editorial in the *Drug Trade News,* which pointed out that each week a druggist may receive as many as 50 pieces of mail containing one or more circulars.

Nearly always the mailing piece is used more for the purpose of acquainting the dealer with forthcoming advertising and merchandising propositions than in the hope of obtaining direct orders. Retail druggists do not respond readily or rapidly to mail solicitations for immediate orders. The indifferent response to mail offers makes it necessary to contact retailers by other means.

It is for this reason that mailing pieces, while deemed necessary and used consistently in most sales promotional campaigns, are generally disappointing in their direct results. However, they are informative and they acquaint the retailer somewhat with the product and the proposition, so that if nothing else is gained by the effort, at least the salesman has had some work done for him before he approaches the dealer in person. They may have broken down sales resistance and thus paved the way for the salesman. It may also be possible, with the aid of carefully kept records, to use the direct mail as a test to determine how sales might be made most profitably. Several areas, as nearly similar in economic and social conditions as possible, could be used for testing offers, sales appeals, deals, advertising themes, and so on. The experiment showing the best result could then be used on a large scale.[6]

[6] In this connection see Chapters XVII and XVIII in W. J. Reilly, *Marketing Investigation,* Ronald Press Co., New York, 1929.

Wholesaler's Cooperation on Mailing Pieces. The use of envelope enclosures by the wholesaler is a method of keeping the dealer acquainted with what is going on and has been found to be more effective and less expensive than most other direct-mail efforts.

Usually the use of envelope enclosures presupposes a deal of some sort. Wholesaler's mail that goes out every month and sometimes every week always includes enclosures of some kind. Where the wholesaler is used as a distributor, and where his active interest has been obtained, it is not difficult to secure his cooperation in distributing, along with his own mail, mailing pieces advertising the manufacturer's product. The wholesaler usually benefits by this form of mail solicitation more than does the manufacturer. The wholesaler's piece of mail with enclosures receives more attention from the retailer than it otherwise would, particularly if it is the monthly statement, and even though the retailer may not be eager to pay it at the moment.

Frequently the wholesaler sends out a special bulletin with price specials and consequently the retailer is likely to look for the wholesaler's mail and to give it more than casual attention.

The cost of these envelope enclosures, or "stuffers," is usually nominal. The sizes are standard, because the wholesalers' association has attempted to standardize the sizes of envelope enclosures to make them easier to handle, and to cause no confusion in the mailing room.

Often, when the retailer is paying his bill, if he sees an appealing deal offered sent along with one of the statements, he is likely to make a purchase. However, too often mail enclosures are not used, but gather dust on the wholesaler's shelf. This situation can be overcome and many circulars used by the manufacturer frequently prodding the wholesaler.

Catalog Tie-ups. There are general merchandise wholesalers such as Ellis Klatcher and Company on the Pacific Coast, the New York Merchandise Company, Eli Walker and Company, St. Louis, Mo., and others who sell to druggists through the issuance of house catalogs. Generally, these firms do not charge manufacturers for the space that they give over to the products listed in their house publications. The catalogs are issued at regular intervals, and in many cases, especially in territories outside the general area of frequent salesmen's calls, they serve as sources of information and buying headquarters for many dealers. The catalog houses do not add products to their line promiscuously. They do not as a rule deal in many drug products. They emphasize principally the quick selling, patent, or cosmetic type of goods. They hold their toilet goods lines to quick selling high turnover numbers that have large consumer acceptance.

The sales cooperation that may be secured from the kind of wholesalers listed above through insertions in their catalogs is dependent entirely upon

the methods that are used by the manufacturer in gaining the interest of the buyer, such as price concessions, special cooperation or limited exclusiveness. Houses of this type can give valuable assistance, particularly in selling to dealers who carry on business in out-of-the-way places and who handle drug products although they do not run drug stores. However, in the early part of any manufacturer's efforts, active cooperation is not usually obtained. Generally the wholesalers require that a product be known nationally before they will give it space in the catalog; it must have some consumer acceptance since the catalog itself is a silent salesman.

House Organs. House organs, such as Eli Lilly's *Tile & Till,* Johnson and Johnson's *Red Cross Messenger,* and Merck's *Report,* are not new, although in the drug field they are not extensively employed. As a rule, house organs are expensive, and any firm with national distribution using them in the drug field will find that the monthly circulation may run to between 50,000 to 60,000. It is possible to put over a particular message directly to the dealer at a considerably reduced expense by taking space in either the national or the sectional trade journals; the cost will probably be less and the trouble, by comparison, insignificant. For example, a good house organ would require an editor and a stenographer or clerk. These with office space and other expenses would come to $10,000 a year. Fifty thousand copies, say, 6 to 8 pages would cost for printing $1,200 a month. Distribution would add another $500 a month, giving a total for the year of $30,000 to $40,000. For this expenditure it would be possible to secure considerable space in a number of trade magazines for a year, with possibly better coverage and more effective result. Good house organs are few, and a poor one is just pure waste.

This method of sales promotion, therefore, may not enjoy widespread use for some time. Some firms, however, in order to keep their wholesalers' men interested, issue bulletins at regular intervals to them. These bulletins are given to the sales manager for distribution to his sales staff as required. A bulletin of this type need not be very elaborate or expensive. It is sent out for the purpose of stimulating salesmen's efforts rather than for a particular drive directed against the retailer.

Published Price Lists. Whereas technically the published price list is not regarded as sales promotional effort on the part of the manufacturer, still it represents an angle in selling that should not be overlooked.

Every year the trade magazine *Drug Topics* [7] publishes what is known as *The Red Book,* which is a complete list of all of the prices of all of the trademarked products in the drug industry. Very frequently the retailer is called upon for certain products with which he is not familiar. By ref-

[7] *The Red Book* was formerly published by *Druggists' Circular,* but the latter is now merged with *Drug Topics.*

erence to *The Red Book,* he is able to ascertain not only what the product costs but also the name of the manufacturer and where it can be purchased. The price listing in this publication is free although there are sections where specific manufacturers may publish their complete lists of prices in display type for a nominal charge. The *American Druggist* issues annually a similar publication, listing all branded drug products, prices, and names of manufacturers, such listing being free. There are also price lists published from time to time in local areas by the local trade journals.

These standard price lists are important in so far as they represent an exceptional source of information for the dealer, and should be used to the fullest extent by the manufacturer.

Chapter 13

CONSUMER COMBINATION AND PREMIUM OFFERS

This chapter tells the reader how to develop among consumers the apparent something-for-nothing idea that is so prevalent in the cosmetic industry. People always seem to like to get something for nothing, even intelligent ones who really know better. For good or bad, this is a common human trait. Here you have the various types of combination offers and premium deals to the consumer and how to make profitable use of them. The dealers' unfavorable reaction is stated and the danger to price maintenance of the special offers is pointed out. Nevertheless the offers continue to be part of sales plans and you will probably find the need to use them.

GENERAL PURPOSES

In the chapter on free deals (see Chapter 10), mention is made of consumer deals and their influence on prices and market conditions. Combination offers and premium deals to the consumer generally have for their main purpose the increase of sales or frequently the introduction of a new product. This is accomplished by the disguising of a price cut to the consumer by offering a bargain as some special inducement or tying in a sale with another product. The use of this means of stimulating sales has been on the increase, particularly since the passage of the Miller-Tydings Bill and the general increase of the minimum of the fixed prices in effect since the establishment of fair trade contracts. The use of a premium or combination offer, however, is not new. It has been used by manufacturers for years in one form or another. The combination offer to the public differs from the free goods deal to the druggist in that its purpose is to give the consumer some extra value and is not intended as a price cut to the dealer. However, the desired result has not always been attained, as will be explained later.

GENERAL TYPE OF CONSUMER DEALS

In the days before the Miller-Tydings Bill, the objections of the dealers to combination offers were quite marked, and frequently this dealer resistance prevented these offers from becoming outstandingly successful. However, it is advisable to analyze the different types of combination offers, their conditions, and general effect on the marketing of any product. The

following have been and still are the most widely used forms of combination offers:

1. The one-cent sale.
2. The offer of an outright premium of another manufacturer's product with any specified unit sale.
3. The combination sale of two or more different products of the same manufacturer.
4. Smaller additional packages with the sale of a regular package.
5. Combination packages of similar products for larger unit sales.

The One-cent Sale. Years ago the United Drug Company started the practice of the one-cent sale. Since their specialties, the Rexall line, were handled by Rexall agents only, the one-cent sale gave the dealer the opportunity of running a special sale on the entire line. Their offering was 2 packages for the original price of one plus one cent. The dealer obtained his merchandise at special prices for the sale and the whole plan was intended as an advertising promotion. The main idea was to popularize the Rexall line with the public, to introduce the products to new users, and it had the definite effect of stimulating sales. Since the one-unit sale was for a limited period only, and the Rexall products were sold by restricted distributors only, outside of loading up the public, it had very little reaction among the trade. This promotion is still being used and Rexall one-cent sales are generally offered twice a year in all Rexall stores.

Early Combination Deals. As is generally known, manufacturers in the early thirties resorted to the combination free deal as an expedient for reducing prices without actually reducing their list prices. When combination deals were first offered, it was thought that through this subterfuge manufacturers could, by adding some other product either of their own or some other manufacturer, give the public additional value and at the same time maintain their original list price. This would make it unnecessary sometime later to attempt to raise list prices. Most of these plans were built around the combination sale. At first glance it might seem that the retailer would be attracted by the giving of a free item, and that it would look interesting to the public. However, this has not always been the case. Many manufacturers, much against their will, had to cut the list prices of their lines. Examples were: Bayer's, who have reduced the price of their 100's from 89¢ to 59¢; Squibb's, who reduced the price of their shaving cream from 50¢ to 39¢. There are many other examples of these reduced prices that have been set since the Miller-Tydings Act came into effect.

Dealer Reaction. The retail druggist did not look with favor upon combination offers. The greatest drawback he found was in the fact that as

soon as these combinations were started a frequent reduction in price took place on both the original product and its free item. The result was that the retailer found himself in competition with street hawkers and others who were often found peddling either one or both of the articles out on the streets at ridiculously low prices. In this way the dealer lost the regular sale of the goods that otherwise he would have had. Obviously during the war years with scarcities and with set prices, this did not occur, but if combination offers are again given a big play by manufacturers, the same situation will probably soon occur.

Consumer Reactions. In some communities, especially in poor sections, combination deals proved to be of little sales value. The public thinks that free merchandise is not worth anything and consequently the dealers have great difficulty in attempting to sell any combination of that character. In other sections, as a subterfuge for the reduction of a price, the manufacturer found that the free goods combination was not effective and worked around to the realization that it is far better to have an out-and-out reduction in the wholesale and retail price of a product than attempt to circumvent such reduction as business conditions may demand by trying to achieve the same purpose under the guise of a free offer. Actually, the public has become accustomed to think in terms of lower prices for commodities in general, even though it may not get them, and the combination offer, except in special cases, has no great interest. Still peculiar combinations of premiums have been, and will continue to be used. The best solution recommended is to try various premium offers in test markets and adopt the one that appears to be most successful with the public and least obnoxious to the dealer.

It is interesting indeed to learn of the result of deals on the sales of certain commodities, especially before price maintenance. This can be judged from a survey made by manufacturers of Mulsified Shampoo. This survey covers not only facts but also opinions, and indicates to just what degree nationally advertised products face the competition of more economically priced merchandise sold on a push basis. From the survey made of various groups of products purchased by the individual, it is quite evident that the dominance in position is held by the few brands within a given price range. In line with the adoption of the Drug Code under the old N.R.A., retail prices started to go up, the tendency of a few brands dominating became even more pronounced. Then prices slipped, under stress of competition and depression, but with fair trade, and the fixing of higher minimum prices, the average retail level went up about 8½ per cent. With the increased costs as a result of war inflation and scarcity, minimums stiffened and during the war approached list or fair-trade maximums, except where O.P.A. rulings put ceilings lower than list prices.

MANUFACTURERS' COMBINATIONS

Manufacturers' combination sale does not meet with as great an objection from the dealer's standpoint and from the trade as do some other combinations that are employed. The dealer has very little objection if the manufacturer gives away an extra one of his own products with the sale of one. If a manufacturer gives away one of his own products, at least he can legitimately feel that the distribution of the second product is advertising, and by making the public familiar with his new product, he can build up sales for the new item in what may be a less expensive way than through other forms of advertising. He also has the advantage of the good will of his original product helping to establish the second. Some of the firms that are trying to build a family of products find that this method is the most inexpensive form of advertising. At least, the manufacturer acquires for his new package a good proportion of the good will of the old. He has also the opportunity of selling his old market with less difficulty than if the two products were disassociated. As long as the products themselves have some relation to one another from the utility standpoint, such as cosmetic combinations or toiletry combinations, the danger of the manufacturer injuring his good will is reduced. Some years ago, Colgate Palm Olive and Peet Company went one step further in their merchandising by offering a combination that, in effect, was detrimental to their good will by cutting down the profits of their dealers. They offered a tube of Colgate's Tooth Paste with any of the Colgate Palmolive toiletries. The purpose, no doubt, was either to increase the market of Colgate Tooth Paste, which seemed unnecessary as it was one of the leading brands; or else to avoid cutting the prices of the other Colgate products by offering the tooth paste for little or nothing in conjunction with them, which served, in effect, as a price cut on the toiletry to the public. In the tooth paste field, combination offers, such as tooth paste and brushes and other combinations, had become so common that the public was no longer interested in them, since it gave them, for example, more tooth brushes than they wanted, so that this other method apparently was tried to hold the interest of the public in a way frequently successful.

In any event within twelve months after this tooth paste premium, the Colgate and Palmolive products were separated and the company went back to its original successful policy of price maintenance.

Effects of Depression on Combination Offers. During depression periods, when incomes are lowered, the public seems anxious to continue buying those products to which it has become accustomed. In order to meet this situation during the depression of 1929–1934, manufacturers and wholesalers offered premium combinations frequently. Most manufacturers of

standard advertised products for the first year or two of the depression resisted the attempt to reduce the list prices of their goods and tried to get the same result by combination sales. Ultimately price reductions had to be put into effect, since in the course of two or three years these combination offers were increased so extensively and there were so many of them as to lose their entire effect. The attempt to withhold price reductions was not achieved.

Another type of premium offer that gained widespread adoption was the combination of two or more products of different manufacturers. For instance, a safety razor was given away with a tube of shaving cream; a tooth brush was given away with a tube of tooth paste. Whereas one company, Dr. West, manufactures a tooth paste to be sold with the tooth brush they make, generally the brush and paste are the products of different manufacturers.

We find premiums of other types given away, face towels with soap, bathroom drinking glasses with mouth washes, combinations in which the manufacturer was not in any way attempting to introduce or increase the sale of his own new product, but actually using these premiums as a means of making his original list price more attractive so that consumers would know that they were getting the merchandise at a lower price, even though the original list price was maintained.

When the practice was started, it was generally assumed that it gave the manufacturer the opportunity of cutting prices without reducing his quoted retail price. However, the public, and particularly those in the trade who objected to the combination offer, always considered that the giving away of premiums of this sort was really a price subterfuge, especially so since the practice had been begun in prosperous times.

It is interesting to notice that Colgate, whose venture in price cutting is mentioned above, subsequently reduced their list price of tooth paste from 25¢ to 19¢ a tube. Although their advertising campaign in behalf of the changed price seemed to indicate that it was only a temporary cut, the reduced price is still in effect, after more than 16 years.

The manufacturers of Listerine, after giving away souvenirs or premiums with each purchase of their products, reduced the price list of their dollar bottle to 59¢ (suggested minimum retail selling price, list is 75¢) and other sizes in proportion. Many firms which had been using premiums as a means of staving off the lowering of prices found that they were better off after they lowered the price of their own leading article to the price consumers would pay, than attempting to maintain a fictitious retail price through the subterfuge of premiums. In some cases premiums only created sales resistance, because not every one was interested in the premium being offered.

PROFITABLE COMBINATION SALES

When we are discussing combination sales, we should bear in mind that there are certain types of combinations that make for possible increased sales volume and that may thus add to profits. This holds true of many toiletries when three or four articles of fixed price may be offered in combination at a reduction. The articles usually consist of the products of the same manufacturer, and are either correlated in use or correlated in consumer desire. This type of combination usually meets with little if any objection. The result is an increase in sales volume rather than a decrease, because if a single article is sold at $1.00, and five of the articles are sold for $3.50 or $3.75 in a combination set, the dealer feels that he has made sales he otherwise might not have made. Because the unit sale is larger his selling expenses per dollar of sales may be much smaller with a resulting larger net profit. The manufacturer benefits from the same factors; consequently such combination sales may be highly desirable all around.

DEALER REACTION TO COMBINATION SALES

Dealers generally have been opposed to combination offers. The objections on the part of the dealer have been against combination sales that represent the offer jointly of two independent products found in the drug store and generally sold separately. The dealer can and will have very little objection if a manufacturer of a product offers another product of his own manufacture to the public, both for the price of one, especially if the additional product is a new one, first being introduced. If the public is satisfied with the new product, the manufacturer's contention is that he has opened up a new market for the dealer to sell the repeats. In the main this contention is true. As stated, the dealer has very little objection to the sale of the articles separately, as this helps the dealer to build up the unit sale. However, his objection to what he calls "D....d combinations" is very strenuous indeed. These combinations, as a rule, include the sale of shaving cream and a free razor or free blade, and all of the other unnatural combinations that have been mentioned above. The druggist feels that this method of merchandising is destructive to prices as it has the tendency to force reductions in price on both products. He also feels that a combination of this type takes business away from him because, if a customer can buy tooth paste and get a free brush, the druggist loses the opportunity of selling the brush. This is particularly true where a product like tooth paste will probably be used up much more rapidly than the brush.

Retailers have gone so far in their objection to these tactics that the following resolution adopted by the New York State Pharmaceutical Association is typical of their opinion:

That the New York State Pharmaceutical Association is opposed to the practice of any manufacturer combining two of his items for sale to the public at the price of one, unless this practice is done for the purpose of introducing a wholly new item, and unless said new item is packaged in sample size or in some manner as not to conflict with the sale of a like product now sold by the druggist.

In December 1938, the executive committee of the N.R.D.A. drew especial attention to an association resolution stating that deals were an uneconomical practice, holding them to be detrimental for the following reasons:

1. They represent price reductions.
2. Tend to produce a demoralized price structure.
3. Cause retailer to distribute free what he might otherwise sell at a profit.
4. Tend to destroy public confidence in value and standard price for advertised products.

LATEST TREND IN COMBINATIONS

Since the combination offer to the public is always a sales stimulus at its inception, it is still being tried in one form or another. One firm recently offered a merchandise dividend in the form of an extra smaller package of the original product along with the first sale. Pepsodent tried out the one-cent plan in 1937 and apparently found it sufficiently successful to repeat in 1938. The fact that many firms have gone on fair trade has had a definite tendency to increase combination offers to the consumer as a subterfuge in price reduction. There is no doubt that the practice is accepted in the trade as a natural one although objected to strenuously, and the acceptance of each offer depends on the nature of the proposition. However, there is always the risk of running into objections on the part of other trades. One free offer of hosiery as a premium with a toilet product caused a wake of excitement and meetings of protest by hosiery dealers, but the offer was still maintained. During wartime, such premiums were discontinued. Now they are returning and quite possibly we might soon have a battle of premiums.

There is no doubt that at times a combination offer can prove beneficial. The limited period one-cent sale has demonstrated its success and certainly the introduction of a new product alongside another one by a manufacturer is a short cut to distribution.

Therefore in deciding upon the advisability and feasibility of making premium offers always remember the dangers and take good care that the product is at least as important to the purchaser as the premium if steady business is to be built up.

There are times when premium offers have many advantages and few disadvantages, and this may be summed up in the case where products of the same manufacture are offered together, primarily as advertising for the new product.

If the public is readv to pay the dealer's price for his standard product, and a new product is offered along with it for a temporary period, as an introductory package it does not detract from the original. Such a combination offer, however, should be for a limited period of time only; sufficient to do the introductory work but not so long as to make a public feel that the original product is overpriced and that the combination deal is, therefore, a subterfuge.

Thus in toiletries we often find perfume given away free with face powder, lipsticks with face powder, and other similar combinations. This practice has become quite prevalent, especially at the Christmas season.

It must be remembered, at this point, that the combination free deal is quite different from the free goods deal as it affects the retailer. The combination offer is to the consumer, and the retailer gets no direct benefit in the cut price, theoretically. As a matter of fact, expressions of the way he feels about it suggest that he considers it a detriment to his business rather than of any particular benefit. The combination deal became especially widespread in the depression years and disappeared in the war years although not altogether and is definitely destined to return in one form or another in the postwar period. The same reasons and objections as follows will undoubtedly be given. They are: (1) to step up sales turnover without obviously reducing prices; (2) to introduce a new product to stimulate the sale of a slow moving old product, and (3) to offset the increase in retail prices on many products that have gone on fair trade.

There is one new factor that will work against combination deals that was decided by the New Jersey courts. It was held (October 1940) that any combination offer that gives the public two articles at a price that is less than the two sell for individually is in affect a cancellation of fair-price contracts under the state's fair trade law. This will mean that manufacturers who want to continue with a price maintenance policy cannot sell combinations for the price of one or for less than the total of the combined fair trade prices of the separate articles.

Since the early part of the depression, manufacturers have resorted to the combination free deal as the expedient for reducing prices without actually reducing their list prices. This ruling will definitely make many manufacturers hesitant about combination sales. What one state has ruled may be repeated in other states and the whole value to the dealer of the fair trade contract will be lost.

Chapter 14

ADVERTISING DRUG STORE PRODUCTS

In the drugs and cosmetics business advertising is probably the most important single item in a firm's budget, at least of the marketing costs. Because of the large expenditure and the hopes built on it, marketers in this field should pay a great deal of attention to their advertising activities. The personnel in charge and the agency handling the account should be carefully selected for their ability to give the kind of services required, should know the types of media used to advertise these products and factors to look for when selecting the media. Emphasis should be placed on testing advertisements so that ineffective methods may be caught promptly and dropped. Advertising when efficiently used gives net results in a geometric ratio. Everything possible should be done to make it efficient.

ADVERTISING PROBLEMS

From the very beginning we have indicated that advertising is an essential part of the marketing plan for any product to be sold through drug stores. It is not our purpose or intention to enter upon an extended discussion of advertising and its value in aiding the sale of drug products. It is probably obvious to the reader from his own personal observations that advertising is essential in the marketing of drug products, but it is not always apparent how advertising can best be employed in the marketing of the particular product one may have in mind.

Advertising, although it is but part of the total cost of distribution in this field, is the most important part. The 1932 distributors survey of the Association of National Advertisers shows that in drugs and toilet articles the total distribution costs were 38.8 per cent of net sales. Nearly 50 per cent of this figure, or 18.36 per cent of net sales, was spent in advertising and sales promotion alone. This included all the forms of advertising used, salaries and office expenses of the advertising department, and costs of sampling. Direct selling costs were 11.31 per cent of sales or about 30 per cent of the total distribution cost. In the 1941 analysis of the 9 largest cosmetic companies issued by the Federal Trade Commission, the average expenditure for advertising for all companies was over 20.8 per cent as against a merchandise cost of 42 per cent of sales.

Selection of Advertising Copy. Unfortunately, in the handling of drug and toiletries, as well as of other products, firms whose executive heads are purely sales- or production-minded spend more time in the se-

lection of individual salesmen than they do in the selection of an advertisement, although the investment in the piece of copy represents frequently a considerably greater outlay of money than that involved in the selection, training, and equipping of a staff of salesmen. Copy should be tested before widespread use of it is made. Enough is now known about testing to make it possible to develop advertisements that will have greater pulling power, by a wide margin, than other advertisements. Every well-equipped advertisement agency is prepared to test copy before recommending the expenditure of large appropriations.

Advertisements should be tested not only through the expressions of opinion of those directly concerned with constructing them or those who pay the bills. The tests should be made by appeal to those who are to be sold by them. The advertisements and advertising campaigns should be tried out first on a small scale in limited areas carefully selected for test purposes. Previously the campaigns and advertisements should have been devised according to the most expert opinion available. Careful records of the results from different media, the use of different themes and copy, and the time and way media were used in the test areas should reveal the campaign, media, and copy likely to result most profitably from their use. Tests have revealed pulling differences ranging from − 57 per cent to + 129 per cent.[1]

Personnel of Advertising Department. Too frequently jobs in the advertising department, of both large and small concerns, are considered sinecures, and untrained individuals are given jobs in it where they can be out of the way and presumably cause little damage. The failures of an inefficient salesman are quickly noticeable and changes are generally made without delay. A poor advertising campaign may be ruinous, and the investment loss may be irreparable, but this cannot be discovered before the damage is done. Still, the spending of advertising funds is frequently left in the hands of immature and untrained men, who are selected for their special tasks for many reasons other than training, experience, and knowledge of the art. They might be chosen because they are related to officers or directors, or for other personal reasons. It must be apparent that the personnel for this department should be, if anything, more carefully selected than for almost any other department of the business, since the possibility of error and waste is so easy.

Selection of Agency. Although most firms have someone in charge of their advertising, the bulk of the advertising work should be given over to an agency to handle. If the advertising budget is large enough, meaning by that more than $50,000, most recognized advertising agencies will be

[1] See *Pre-Determining Sales Results,* Mitchell-Faust Adv. Co., 1935, and *An Outline of Advertising,* by George B. Hotchkiss, Macmillan, New York, 1940, Chapter 26, for tests which should be made.

only too willing to cooperate with the manufacturer in the proper distribution of his product. In the selection of an agency, however, the same care must be employed as in the selection of personnel of the advertising department. The agency should be selected on the basis of its recognition by the publishers' agencies (which usually means that certain standards have been met), its trained personnel, its success in handling similar products, its initiative, and its creative ideas. Where the advertising manager of the company, because of improper methods of selection, has little or no visible authority, where advertising is judged in committee, and where the wishes, foibles, and prejudices of directors and members of their families must be catered to, the result is generally disastrous to the success of any advertising plan even though a capable agency may have been selected to cooperate with the advertising manager. Just as it is important for the advertising manager to have a full conception of sales, of merchandising, and of production problems of the company, so it is necessary for the agency account executive to become a sort of coadvertising manager for the company, maintaining contact with publishers' representatives, and artists, making surveys, and arranging for publicity, in order to cut down the advertising manager's work.

The facilities of the agency should be used to the fullest extent in a complete tie-up with the sales promotion plans of the company, and the agency should be kept constantly informed as to the firm's plans and field efforts so that the greatest benefit might be derived from the efforts of the agency and the advertising department.

There is a tendency among many firms to change agencies every two or three years. Some manufacturers consider this change necessary because they feel that in this way they are able to obtain new advertising ideas and sales plans. If, however, this reason is given to justify the purchase of agency service largely because of the preferences of an individual, or because some member of the agency belongs to the same club as the advertiser, the net result may not be as beneficial as expected. Production managers and salesmen generally are not selected because of their relationship to executives of the firm. Usually they are expected to measure up in ability, to produce or to sell goods at lowest possible costs. An agency should be selected and retained for the same reasons, although, unfortunately, this is all too frequently not the case.

A 10 per cent increase in efficiency in advertising effort (based on the average expense for the industry) should as a rule result in a 2.5 per cent increase in net profits. If advertising results are checked carefully, advertising can be made to produce at a greatly improved rate of efficiency. In that event net profits can very easily be doubled despite conditions which may make for increasing production costs or even high selling expenses.

Type of Agency Service. When a manufacturer has selected an agency he can arrange to make payment according to the service he may require. An agency may be retained on a commission basis against which the commission of 15 per cent allowed them by publishers for advertising placed may be offset. Therefore, if the advertising appropriation is large the many services an agency can render may be secured at what is, in effect, no cost at all. The publishers' commission will be large enough to cover the cost of the services. Since an advertiser cannot secure this 15 per cent commission for himself he is well advised to use the agency for complete service.

Where the advertiser finds it to his advantage to concentrate on types of media or a form of advertising that does not pay the usual agency commission, then he must expect to pay his agency a service fee large enough to compensate them for the advice and services they render.

It has been our experience that most agencies are able to furnish the manufacturer not only with the advertising plans that he needs but also with marketing and merchandising researches. However, the advertiser should remember that, after all, he is the manufacturer of the product, and he ought to be more familiar with the marketing possibilities of his own product than any agency or account executive. All the agency can reasonably do for the advertiser is to enable him to choose the particular medium that is best for his advertising and to handle the details in the most efficient and effective manner. By this we mean that the copy should be well written and pretested, the advantages of certain media, from the space buyer's angle, should be pointed out, and proper division of the appropriation among media should be worked out.

Some agencies have more experience in the marketing of drug store products than have others. Where the manufacturer needs such assistance, it will be well for him to select the agency that can give just as much assistance in marketing plans as in advertising suggestions. Some agencies have not the background and experience to give much cooperation in marketing suggestions. They may have, however, a particular flair and ability in the writing of copy that sends the public into the stores to buy. If the manufacturer is capable of developing effective merchandising plans of his own, then this latter type of agency should be the one to use. The perfect setup is one in which an experienced advertising manager is placed in complete charge of a fixed appropriation, and has a large measure of power in the selection of the agency with which he must work. If he can find an agency that knows something more than writing copy, selecting media, or buying art work he will be very fortunate.

It is important to have confidence in the advertising department and the agency. Furthermore, the agency and the advertising department

should work together, because otherwise the efficiency of both the advertising department and the agency may be impaired. If the competent advertising manager cannot get along with the account executive of the agency or feels that everything is not working out satisfactorily, then it is time for the agency and the manufacturer to part company. They cannot do justice to the requirements of the manufacturer's business plans. Therefore, the most careful investigation of an agency should precede a contract, since this is the best prevention of future disappointments.

Method of Introducing Products. In surveying the advertising methods in the drug industry, it is interesting to note that practically every method and form of advertising are used. More important, however, than the form is the expenditure for each method. The following breakdown of the advertising budgets for a number of years of a group of cosmetic

TABLE 17.

Breakdown of Advertising Budget of 14 Toilet Goods Companies (in percentage)

Breakdown of Advertising Budget of 7 Proprietary Drug Companies (in percentage)

Media	1934	1935	1934	1935
Magazines	27.94	30.04	15.85	18.66
Newspapers	11.57	15.66	35.00	36.28
Radio	19.10	13.13	24.93	24.61
	58.61	58.83	75.78	79.55
Other advertising				
Outdoor	.28	.03	1.81	1.35
Free goods allowance	.32	.42	1.35	1.13
Car cards	.84	.53	4.74	4.61
Direct mail	5.70	4.85	.41	
Samples	6.78	6.80	2.61	.25
Dealer Display	8.39	9.01	4.32	3.68
Premiums	1.21	2.11		
Miscellaneous	1.08	1.09	.60	.80
	24.60	24.84	15.84	11.82
Production costs	4.33	4.10	2.43	2.42
Total Adv.				
Dealer promotion				
Business papers	.23	1.60		
Trade papers	3.20	2.21	.71	.75
Conventions and exhibits	.90	.29		
House organs	.62	.66		
Motion pictures	.35	.21		
Price lists	.08	.11	.01	
Publicity	.24	.27	.34	.17
Reserve fund	.25	.21		
Sales and Service Lit.	.34	.61	.09	:90
Other expenses	2.89	2.79	.97	.67
	9.10	8.96	3.12	2.49
Adv. Administration	3.36	3.27	3.83	3.72

companies and a group of drug companies, members of the A.N.A.,[2] is interesting.

No parallel study has been made since 1935. Obviously some of the figures have changed since then, as witness the rise in radio advertising. Therefore these figures should be used with caution and only after consultation with the advertising agency, whose experience may permit them to revise the proportions of advertising expenditures for the best results.

TYPES OF ADVERTISING

It is not possible to recommend any particular form of advertising in a chapter such as this. The details, methods, and case histories of successful advertising of drug and cosmetic products may sometime, it is hoped, be treated adequately by a competent individual in a volume that might well be called "Tested Methods of Drug and Cosmetic Advertising." Fragments are to be found here and there in periodicals and books. But no comprehensive treatment is available. The purpose here is to point out only the generally accepted methods. The table on page 208 which indicates the general regard in which the various media are held is the result of the trade's experience with them, from the point of view of effectiveness.

For proprietary products, detailing the physicians and medical sampling have always been important and effective forms of advertising. There is hardly a successful proprietary on the market that cannot point to a record of professional detailing and sampling, which was the basis of medical acceptance and which thus led to its success as an advertised product. However medical acceptance is wanted not only for purely medical products but also for many other preparations, such as dentifrices, foods, special drinks, and other products. Manufacturers have been making determined efforts to secure medical endorsement and acceptance, for whatever value such approvals may have in securing business through doctors' recommendations and the prestige such endorsements may have with the consumer.

During the past few years the American Dental Association has given its official approval to certain products that are marketed in accordance with the restrictions that they have set up for professional endorsement. Complete details as to how this acceptance may be obtained are open to any manufacturer who communicates direct with the association. The regulations are similar to those explained in Chapter 16, as being required by the American Medical Association. That the professional sampling method, both to the doctors and dentists, is important may be judged by

[2] A.N.A. *Analysis of Advertising Budgets, 1934–1935.* This is the latest known study of this type. For the benefit of trade, similar studies should be made every few years.

the extent to which this form of advertising is used and by the success of the many firms who have resorted to only this type of advertising.

Not every product can be successfully sampled to the doctor; not every product will the doctor recommend. But, so important has professional endorsement become that there is hardly any general product of consumer demand to which the constant recommendation of the doctor may not give considerable aid. There are over 260,000 doctors and dentists in the United States,[3] and they nearly all have families, so that even if the doctor has little opportunity to recommend a product directly, as an individual consumer he is worth cultivating.

Advertising to the Medical Profession. The advertising intended to appeal to the medical profession can be as technical as any manufacturer may wish. As a matter of fact, technical copy will be usually more acceptable to doctors than the general run of consumer copy. Sales letters, however, may be written along the same lines as to any other individual, and as such they are generally acceptable.

The distribution of samples not only to the medical profession but by the medical profession to the public is a favorite method employed. Doctors and dentists are in receipt of hundreds of samples monthly. Because so many samples do not reach ultimate destination (the public), there is a general tendency to limit the sending of samples to doctors and dentists who are willing to make special request for them. One firm (Mead Johnson, makers of Dextro Maltose and other products) supplies the doctor with special health charts, on which he can trace the rise and fall of baby's daily condition. Another manufacturer furnished the doctor with a printed list of maternity needs, imprinted with his name and that of his favorite druggist for distribution to his prenatal patients. These are characteristic of the methods used by manufacturers to get the doctor's cooperation and easier acceptance of products other than pharmaceuticals.[4]

Consumer Sampling. It has long been a recognized practice that most products are best advertised by the products themselves. In other words, sampling in one form or another is usually effective. When this type of advertising is planned, consideration should be given to the many ways that are used to distribute samples. Mention has already been made of the distribution of samples by doctors and dentists to their patients. This cooperation is being obtained constantly; and when a sample is received from a doctor or dentist it carries with it, by implication, the endorsement of the doctor even though such endorsement is not actually given.

[3] *The Index,* New York Trust Company, Summary, 1945.

[4] A.N.A. report, *Getting Professional Acceptance of Advertised Products.*

Samples may also be given away by retail stores; through distribution from house to house; through distribution in the streets; and in response to advertisements. The extent and character of sample distribution are as varied as the advertising department may develop.

Methods of Distribution.—Recently Donnelly's, Chicago distributors, prepared a complete unit of several different products for sample distribution.

Outdoor Girl Face Powder samples were distributed by the millions to the patrons of moving picture houses in conjunction with prize contests and free gift offers, and to patrons of dancing establishments, clubs, bazaars, bridge parties, in addition to samples distributed through published advertisements. N.R. Remedy has mailed millions of samples to telephone subscribers and to lists supplied to the producer by retailers.

The advertising effectiveness of sampling has long been recognized by advertisers everywhere, but there is waste in sampling and that waste often makes it expensive. Consequently great care in the distribution of samples is necessary.

Checkup of the Sampling. The response to samples should be checked to determine the effectiveness of the sampling. A successful checkup might be made in the following manner:

1. A special coupon might be enclosed redeemable by any local dealer, who may offer a premium, or give special value when a purchase is made.
2. Special sample combinations may be offered, upon receipt of a nominal sum (10¢ or 25¢).
3. Territorial sampling may be undertaken, and sales checked carefully with key dealers in the respective neighborhoods.

These are only a few of the many possible ways of keeping close track of the results of sampling and thereby the effectiveness of the medium.

Some products cannot be effectively sampled. However, most packaged products of small sale units, not strictly medicinal, largely for external use, can be sampled. Espotabs built a constantly increasing business through the distribution of samples in the streets of Philadelphia and other large cities. These were handed to the public and the location of the distributor was changed constantly, so as to assure a wide distribution. Feenamint has done street sampling for years. So have Wrigley's and Beechnut Gum.

Retail stores are good places for the effective distribution of samples. Sampling also may be done in a less expensive way, by using combination sales.

The degree of effectiveness of the sampling medium is determined entirely by the time necessary to form the habit of using the product. A sample large enough to last beyond habit formation may lead to the use of

samples rather than to the purchase of the product to which the sampling is incidental. It is for this reason that sample packages were devised to be retailed at 10¢ and these have been sold by manufacturers to the limited variety stores. While this was the original theory, it has not worked out that way in practice. There are many products that are sold in very large numbers in 10¢ sizes, whereas the sale of larger sizes is comparatively meager.

The manufacturer who has several products finds it to his advantage to sample more than one product at a time and thus, with one advertising and mailing cost, several products can be introduced to the public. This also leaves open the possibility of giving away one product in a trial size with the sale of another, in a form of combination offer.

Magazine Advertising. While newspaper advertising can be definitely localized, magazine advertising becomes more scattered in coverage. Since national magazine advertising cannot be effective without adequate sales outlets, it is necessary to be very careful in the consideration and adoption of magazine advertising. Periodicals should be selected that cover the areas, whether urban or rural, from which sales can be expected to materialize.

Results from national advertising are determined by dealer distribution. Copy, of course, should first be tested to discover whether or not it is likely to be read by possible consumers. The testing is done by keying the advertisements that call for specific action by the readers and then trying them out in the test areas previously decided upon. The keying may be done by the use of department designation or number on the wording of the coupon, name, and so on. The analysis of these tests may indicate the extent to which the advertisement is being read and what moves people to the desired action. But unless the product has been distributed and made easily available to the consumer, national advertising may not yield results proportionate to the cost of the advertising. The measurement of results from preliminary advertising may indicate the desirability of securing national distribution of the product, and a sales campaign may then be planned and the media to be used to affect the consumer decided on.

Some studies of advertising costs indicate that large space may not be as efficient as small space; that the cost per inquiry of using large space in a few media may be considerably higher than the cost per inquiry of using smaller space in many media or many small spaces in the same medium. Therefore, close work with one's advertising agency in continually checking and proving the efficiency of the advertising copy and the media selected is most important.

When advertising of Outdoor Girl Face Powder created many inquiries, in order to check up on the effectiveness of the copy used, a detailed survey

was made of inquiries received to determine whether advertising and samples really resulted in customers. It was found that 28 per cent of those who had inquired were using the company's main product, which was being advertised, and a percentage nearly as high was using the other products that had been sent along when replying to the inquiry. From this test an efficiency formula was arrived at that enabled the firm to judge the advertising value of every magazine used. The figure was determined as follows: Inquiry cost + Customer's efficiency = Net cost. That is, if the inquiry cost was 10¢ and the customers' efficiency disclosed that 40 per cent became regular purchasers the net customer cost would be 10/40 × 100 or 25¢ and the media would be rated accordingly. If on the other hand, the inquiry cost was only 5¢ and the customer integer showed 15 per cent then the customer cost for the respective media was 5/15 × 100 or 33⅓¢ each. From this it can be seen that inquiry cost alone is not an entirely accurate way of measuring media, as tests showed customers gained were as low as 18 per cent and as high as 53 per cent of inquiries received from different media. This formula was applied to all magazines used, and the media thus rated accordingly to their respective standing.[5]

Newspapers. The comment that holds true for national magazines holds true for newspapers, with the exception that in using newspapers it is possible for the manufacturer to confine his advertising to the sales territories covered by his salesmen, and so tie up better with his distribution among dealers. Generally, the type of copy used in magazines is suitable for newspapers, although rarely are newspapers as effective in obtaining direct inquiries as magazines—and therefore coupons are not generally used in newspaper space. Furthermore, since dealer names can be easily inserted, direct action for immediate sales is most generally used. With magazine circulation scattered more widely, sampling by means of coupons and inquiries has been widely used. In rotogravure, it is entirely possible to use the same copy as magazines and obtain just as accurate a checkup of results. For the most part newspaper advertising is used to back up local sales effort, and frequently includes the names and addresses of the local dealers. Rotogravure advertising follows magazines closely in inquiry results and for superior quality of paper. The same is true of comic sections and magazine units of newspapers like *This Week* and *American Weekly*. This is particularly the practice with toilet products in the hands of selected stores where advertising is largely confined to newspapers. When there is a large number of retail outlets stocking the product in one community then it is impractical to refer to more than a few, if any, of the dealers. This is not a wise thing to do, because if any are left out, there

[5] Worked out by one of the authors in 1932 to rate magazine efficiency. Still being used and tested regularly to rate results and magazine efficiency.

is likely to be some ill-will created, so that in the main, copy in large cities rarely carries dealers' names.

Newspapers may be used to test copy. The same piece of copy that may represent an investment of several thousand dollars in a national magazine can be tested beforehand in a newspaper at a comparatively low cost, in either one or many communities.

Newspaper advertising also is more flexible and can be tied up more closely with the actual selling effort and be discontinued or increased quickly as conditions warrant. Newspapers can be used in cooperative efforts with local dealers. Size of space and extent of campaign are determined largely by the extent of local distribution obtained and cooperative dealer display possible. Furthermore, local newspapers can be helped immeasurably in getting best results by adequate simultaneous window display.

Radio. Within the past ten years, radio has secured an increasing percentage of the advertising appropriations of many important manufacturers. During this time a number of products have been successfully marketed in connection with which only radio advertising was used. The results from radio advertising are very easily checked by the immediate response to an offer announced during the program or by the fan mail received following each broadcast. Radio, too, can be confined to limited territories or expanded nationally as the appropriation permits, or as it is desirable. The tendency of advertisers to extend the use of radio advertising has resulted in some problems that call for consideration. There has been a general outcry by possible consumers against the type of radio commercial broadcasts. Whether or not this outcry is justified can only be determined by the success or failure of the campaign that is attempted. After all, the public is beginning to realize that it is indebted to the advertiser for its entertainment, and is willing to accept the fact that listening to the advertising is the price that it pays for the radio entertainment. As a matter of fact, we have heard women admit when making purchases that they have been influenced by a feeling of responsibility because of the program they had heard.

How best to use radio as part of any campaign can be worked out with your agency. Spot announcements have been used very frequently to build up individual markets. Spots between sustaining programs have pulled for many advertisers. National hookups or major stations are suitable only for the large appropriations. However, since radio gives flexibility, regional and sectional coverage, and may be large or small, it has its place.

Effect of Radio Advertising on Dealer. Radio has one outstanding influence, beyond its effect on the consuming public, and that is the effect on the dealer. The size of the appropriation is also a determining factor here.

Generally speaking, a dealer does not look upon national advertising in periodicals as something that will influence sales in his store very much. He does not feel that he gets much benefit from it, mostly because he does not see the advertising and consequently it does not make much of an impression upon him. He will tell the salesmen "Very nice" but he will not be sufficiently impressed to make a great effort to feature the product. His answer is most likely to be "Create the demand and I will stock." However, he is likely to read his own local newspaper, and, therefore, local advertising will interest him more. But what is most important is the fact that even if he does not listen to his radio his family will, and the products that are advertised over the air get an increasing degree of attention from his family, and eventually from him. In that way, radio advertising acts as a stimulant in increasing dealer consciousness in a proposition. Surveys in over 4500 retail outlets disclose a definite trend on the part of the dealer toward accepting radio advertising as the type of advertising that is of particular benefit to him, that he will recognize, and with which he will cooperate.

Part of the success of any advertising campaign and part of the dealer cooperation depend upon his familiarity with the advertising. Thus this factor in favor of radio surely is having a marked influence on stepping up the dealers' interest in a product.

Since they have been using radio, some manufacturers have experienced a tendency for their inquiry returns from magazines to increase. Copy that ordinarily might be expected to produce a certain percentage of returns has had double the inquiries while radio advertising was in effect. This, in itself, indicates that listeners who may have forgotten about the company's offer made over the air waves are reminded about it from other advertising, and are likely to be stimulated to action. In that way radio may well be regarded as a means of increasing the efficiency of magazines.

Radio advertising results should be tested. Suggestions as to the method of testing have been mentioned previously. One careful study made in 1946 suggests that as much as 25% of radio audience may not note the commercial announcements sufficiently to become possible buyers of particular products. Where inquiries are expected, tests can be made of inquiries to ascertain the effect of the advertising on the inquirer, and to what degree the product has registered with the individual, after some time has elapsed.

Radio is becoming an increasingly important medium for drug product advertising, and the tendency has been toward increasing radio's percentage of the total of the advertising appropriation. More radio advertising is being used at the expense of other forms of advertising, but since the best time on the air is limited and successful programs do not relinquish

their favorite spots, the saturation point will be reached sooner or later and the other media will regain some of their lost ground.

However, care must be taken in determining whether the radio expenditure is warranted. Selection of radio programs and radio time must be given careful consideration. The choice of the form that radio advertising is to take, whether famous names are to be paid for, or whether the station's existing audience is to be appealed to are items of consideration that the advertising agency's survey should disclose.

Just as the merchandise survey is important from the sales angle, so is the advertising survey important from the advertising angle. Since we spend presumably 50 per cent more of our distribution budget for our advertising than we do for our direct selling, since we are not able to change advertising plans, copy, and media as rapidly as we can change salesmen, and since we cannot determine results as quickly, we must be more careful before we become too deeply involved in any definite or extensive advertising plans for our product may not be effective.

ANALYSIS OF MEDIA

Copy should be tested, but that in itself is not all. We should go even further and analyze our media. What types of magazines shall we use if they are used at all? Shall they be the women's magazines? Shall they be the pictorial magazines? Shall they be the "pulp" magazines or will the movie group answer our purpose?

One of the authors when preparing a baby powder magazine campaign questioned some of the leading magazines as to the average age of their women readers, but with one or two exceptions the magazine could not answer the question. Since the product was a baby powder, the natural inclination would be to advertise in magazines whose average reader age was between 20 and 30 for women. Age is quite important, if we are advertising a dentifrice, a menstruation relief, or some other general household product. Our advertising survey must necessarily follow our sales survey in purposes to which our product is to be put.

It is necessary to analyze from other points of view. For example, a women's magazine with circulation largely in urban areas may make a sale by showing that "urban families spend four times as much in drug stores as do rural families."[6] But *Household Magazine* says this is "horse and buggy thinking." They point out that rural families buy much of their drug store products in urban stores because it is easy to travel to the nearest large community and select from a wide variety.[7] But they are sold in their homes through advertising appearing in the periodicals they read.

The selection of the media, the apportioning of the budgets, the style

[6] *Drug Trade Market Facts*, Hearst Magazines, Inc., New York, p. 17.
[7] Capitalizing on Per Capita, *Household Magazine*.

and type of our advertising, should be determined by the agency. However, the advertising manager and the advertising department must be sufficiently familiar with the effectiveness of the media recommended to be able to determine in what method and in what dirction emphasis should be placed. In this connection, also, our survey will enable us to determine which media have inflated circulations, whether premiums are used to obtain circulations, and whether reader interest exists because of the editorial content or for other reasons. The advertiser must have the opportunity of placing his message before people who are likely to respond to it. Therefore, his survey must determine whether he is paying too much for circulation that does not represent a profitable market. This survey should give him an opportunity of classifying his media so as to be sure he does not become a victim of wasteful circulation methods. "Bulldog" or early editions of morning papers represent little value to any advertiser because they reach only a small and indifferent audience, who are reading in a hurry on the way home late at night.

The A.N.A. published a full discussion of this subject in their report *Inflation of Newspaper Circulation.* This report clearly points out some of the methods used by newspaper publishers to gain circulation and indicates how to weigh these factors in selecting an advertising medium.

The Budget. Great care should be taken in the analysis of our survey to be sure that we do not divert too great a proportion of our advertising into some speculative channel, or channels, as for example stunts, miscellaneous publicity that has no direct tie-up with the product, and other unorthodox advertising wrinkles. These activities might result in our advertising appropriation being dissipated before we reap the benefits from it. We should determine, also, how far we propose to go with the production costs of advertising. For example a $1000 picture to be used in a single piece of copy to be inserted in $1400 worth of space is out of proportion. While it may seem that warnings about precautions of this kind should be unnecessary, still conspicuous advertising "flops" in the marketing of drug store products during the years before 1941 suggest that such warnings are necessary. There has probably been more money wasted in careless advertising of drug products than in any other type of business.

An oral product put on the market a few years ago was an outstanding failure. In their attempt to market a mouth wash, the producers selected an outstanding agency, they arranged for a large advertising appropriation—they had apparently ample funds and yet the product was a "resounding flop." The product at the end of three years, with the expenditure of $256,000 in advertising, had produced $196,000 in sales, and stock on hand was offered for sale for $39,000—the value of the inventory. This incident is only one of many, showing how thousands of dollars have been

sunk in an effort to capture consumer interest, but to no avail. Incidentally, one of the backers of the product was an advertising agency that lost thousands on the venture even though they should have known better. The failure could be ascribed to poor merchandising, poor advertising, poor name and packaging, or a combination of all three.

OTHER MEDIA

In the analysis of the advertising budget we have covered the principal methods of advertising drug products. Other methods are used, but they are not generally understood, and not likely to be recommended by the average agency. These are, however, of sufficient importance to be explained.

Demonstrations. Demonstrations are an accepted form of introducing toiletries to the public. They are divided into two types—open demonstration or hidden demonstrator. Open demonstrations may be described as straight advertising. Hidden demonstrators are employed by the manufacturer, placed behind the counters of retail stores, mostly department stores, to push the sale of the manufacturer's product. They are usually confined to the larger outlets and the Federal Trade Commission has issued many citations against many manufacturers who use them. The latest decision (Elizabeth Arden (1947) is still under dispute and an undecided question. However, demonstrators are still being used by many firms who want to break into the department stores, and undoubtedly will continue until the courts have finally decided the question as to whether the Federal Trade Commission is correct in its ruling. The Federal Trade Commission investigation has been in response to agitation against those using demonstrators by the industry itself for many years. This agitation has been quite spirited and resulted in a split for a time in the association of manufacturers. The employment of demonstrators, whether hidden or open, is a largely used method of one outstanding firm, that is reputed to have had as many as 300 demonstrators operating at one time.

Mail Promotion. This may take the place of direct solicitation, copy follow-up, or advertising in the form of circulars or catalogs to inquiries. Toiletry firms spend large sums in giving beauty advice, using the mails for the purpose. Many find that this form of advertising is beneficial in that it helps to build up good will and leads to sales of the product.

Outdoor Advertising. This is no longer resorted to very much by drug or cosmetic field. Soaps have been using outdoor advertising but since most good spots are taken by the auto and food groups, the drug field seems to have passed this medium by. The principal media have been walls in localities that are in prominent locations, farm barns, and road signs used mainly to advertise proprietaries. There are a few drug and toilet

goods products, especially soaps, that advertise in that way but, as will be noted from the budget figures on p. 208, the percentage of money spent in that way is not very great; the use of barn walls is too suggestive of some of the unpleasant features of the barnyard to be associated with glamour cosmetics and health drugs.

Car Cards. Car cards are used by many drug firms as a supplement to other advertising. Their persistent use in connection with some products indicates that they have value, but their effectiveness can be determined only by individual experience. Some products would appear to be helped considerably by car-card advertising, particularly those products that have a spasmodic or emergency usage. By this we mean either an emergency curative or a general light medicinal like a cold cure or liniment for pains and aches. Shaving creams and other soaps too are advertised extensively in car cards. Since the car cards are used as a supplementary medium they may be joined in our plans with station posters and in conjunction with the transit lines in the larger cities.

Signs. Display signs, both indoor and outdoor, are supplementary media used in varying degree, depending upon individual experiences with them. Thermometers, interior advertising cabinets and signs, exterior electric signs, all take a part of some advertising budgets. They all have a place but each should be graded on the basis of its importance. Point-of-sale advertising has importance and this form of exclamatory advertising is desirable. When the signs or displays are tied up with the actual merchandise and become a direct selling aid then they are quite important.

Premiums. Tokens given away from time to time can be used to good advantage. For a while the craze of jigsaw puzzles was tremendous, and these novelties were used by many firms as souvenirs. Then the mask craze came along and had more or less of a temporary vogue. These forms of advertising, however, generally are all supplementary and should be used purely as an adjunct to the basic means of putting a product over. They are used only as premiums to stimulate quick action for special products.

Public Relations. Strictly speaking this is not an advertising medium. It is a device for securing free publicity favorable to your product. But when it is sales-minded it can be as effective as advertising in paving the way for a salesman. The device is used to tell the public in every possible way about your product and business. You develop news items about your drugs and cosmetics and send them to editors of periodicals and commentators over the radio and hope they will use them. You do what you can to create good relations with these people so they will be favorably impressed with what you send out. At times, the occasion may present itself for holding a party—liquid and solid refreshments make it intriguing—at which an interesting story is unfolded that may later receive much free space in

periodicals and time over the air. Public relations have become so important and such finesse is required to build good relations that generally a public relations counsel should be hired. The same care should be used when doing so as when engaging an advertising agency.

COPY STYLES AND TRENDS

At this point, it is advisable to illustrate by example some specific cautions on copy and the marked changes recent laws and regulations have caused. Generally speaking, medicinal copy had been more or less "scare" copy. From the old medicine man who sold his product from the back of the wagon, as a cure-all for all ills, to the larger organizations that developed into nation-wide organizations, the advertising of a product for self-medication included cure-alls for many kinds of ailments, some of them far-fetched to say the least. Under the new laws and regulations, many claims to cure certain illnesses had to be eliminated entirely, others had to be reduced to mere claims to relieve certain types of pain, and when certain drugs were in the formula, special cautions against habitual use or use other than as directed had to be included. While it is impossible to indicate here all the copy changes, and along with them label changes, that these laws, regulations, and Federal Trade Commission actions have brought about,[8] many ads run before and since the 1938 Pure Food, Drug, and Cosmetic Act indicate a good start has been made to clean up medicinal copy.

Changes were made in cosmetic copy, too, although not to the same degree. Cosmetic copy has generally been more on the glamour side, rather than the cure-all, but copy that attempted to market a product for the elimination of wrinkles, or the incorporation of oil in the skin, or any permanent improvement in the physical appearance of the skin had to be eliminated.

Another warning must be given here in regard to copy. Under the Internal Revenue Department regulations care must be exercised with respect to wording on labels and in advertisements so that a product might not fall into the cosmetic class and become subject to a 20 per cent excise tax. For instance, one Medicated Skin Cream was held a medicinal, because great care was taken in preparing labels and advertising, no suggestions being made that the product enhances the appearance of the skin, merely that it helps remove irritations and eruptions due to external causes. Were there any indication that the product were a beautifying agent, it would require a 20 per cent retail tax on all sales.

From the above, it will be noted that extreme care and discretion must be exercised concerning just what goes into each piece of copy. No longer is it a question merely of expression, but even individual words must be carefully weighed, their interpretation studied, and their effect on the

[8] See for more detailed treatment Chapter 21, "Government Regulation."

entire advertisement and label carefully scrutinized. The Internal Revenue Department issued in 1945 a list of about 140 products that it considers taxable at 20 per cent retail. While this is not final it will give a fair idea of the taxability of different products. Changes may be made from time to time and when the tax is eliminated this caution can be forgotten.

GENERAL OBSERVATIONS

In connection with the marketing of our product, and with the assumption that advertising is going to be employed to sell our goods, we have many factors and phases to consider.

From the information at hand we realize that many forms of advertising can be used, and that it is important for us to determine, therefore, whether we are going to use advertising at all, and if we are what use is to be made of the various forms. In the selecting of our advertising department personnel and of our agency, we must consider carefully the forms of advertising we are going to use, the media that we wish to employ, and whether our advertising will be national or local.

In view of the fact that so many different forms of advertising are used in the marketing of drug and toiletry products, it is very necessary for us to select that form of advertising that will give us the most efficient job in the quickest manner within our budget appropriation. We realize this the more because we know that the ratio of our profit depends largely upon the efficiency of our advertising and its effectiveness in selling goods for us at a minimum of cost. Our advertising results are dependent, first, on our selection of our media; second, on our selection of layout; third, on the type of copy we apply in our media; and fourth, on the cooperation that we give our dealers, and that they give us.

For those who would like to delve deeper into advertising and to make practical use of their knowledge the following books could be read with profit:

Advertising Procedure, 3d Ed. by Otto Kleppner. Prentice Hall, Inc., New York, 1941.

Advertising Copy, Rev. Ed. by George B. Hotchkiss. Macmillan, New York, 1940.

Advertising Media, by Hugh R. Agnew and Dygert, W. B. McGraw-Hill Book Co., Inc., New York, 1938.

Psychology of Advertising and Selling, by C. E. Benson and Darrel Lucas. Harper & Bros., New York, 1930.

There are, of course, many other good general books on advertising and also special books. The reading of those listed above should lead to some of the others.

Chapter 15

TYPES OF DISPLAYS

Advertising drug and cosmetic products takes amazing forms and shapes, probably more varied than any other line. The preceding chapter tells about periodical, radio, and other media. This one tells you of the different types of display advertising such as permanent or outside electric signs; semipermanent such as counter pieces; and temporary such as window signs. These are mostly of the point-of-sale type of advertising and, therefore, more important than first thought might suggest. They are that last fillip frequently necessary to remind and clinch the sale. This chapter tells you how to use the various units, why, and the cost thereof and their possibilities in combination with one another and their place in your market campaign.

The value to the consumer of display at the point of purchase has been recognized as important by many manufacturers whose markets are controlled by large numbers of retail outlets. Adequate point-of-purchase display in the marketing of drug store products is of paramount importance to most producers.

DRUGSTORE DISPLAYS

We have indicated how the package itself can be made to give maximum display value. We have also pointed out that many firms so arrange their unit of sale to the dealer that packages become displays automatically. The practice of the dealer in placing packages where customers are most likely to be attracted to the product gives the manufacturer further assurance that when his product warrants it, it will be given display preference by the dealer. However this is only one kind of display.

Drug store displays may be divided into three types:

1. Permanent.
2. Semipermanent.
3. Temporary.

Permanent Displays. Permanent displays are of several different types. In the drug field, they are usually confined to outside electric signs, painted windows, decalcomanias, and window transfers and on the inside to attractive and permanent display signs that become part of the store fixtures. The outside electric sign and painted window or wall bulletins were used to a large degree years ago but recently this type of permanent sign has been discarded by many retailers for more attractive interior

signs. This older type of display was usually an elaborately painted or electric sign with the picture of the manufacturer's product thereon, and either the dealer's name or the name of one or two of the products he was selling prominently displayed.

The painted window sign usually was installed when the dealer's store was opened or at some time afterward upon negotiations between the manufacturer and the retailer. There, on the upper part of the door in a space between two and two and one-half feet and completely across the window on all sides would appear advertisements of a manufacturer's product, with the rest of the windows showing general advertisements of the store. Most of these signs had a blue background with either white or gold letters.

Often, outdoor signs were placed, where possible, on the side wall of the drug store. In recent years many of the most desirable places of this type have been leased or bought by the operators of three-sheet poster plants and now carry general advertisements of all kinds, but there are still many places where large metal signs advertising the dealer and also some manufacturer's product are shown. Sometimes door plates are used, both on the inside of the door panel or on the outside. Some firms have been using thermometers placed outside the store alongside the windows with a fair degree of success since they attract much attention during periods of exceptional weather. Metal signs, being permanent in nature, are being placed under the windows.

Inside the store, on the windows, are usually found decalcomanias and window transfers. Some of the larger firms have been supplying the retailer with attractive glass and paper signs for the inside of the store. This type of advertisement is used largely by firms that are seeking to establish house prestige. You will find many firms manufacturing ethical products using this type of advertisement. Obviously, point-of-purchase advertising of this kind is used as a means of reminding consumers that products advertised are on sale at the place where installed. The permanency of the display is fairly certain, for usually advertising material of this kind once placed in position is very rarely changed or moved. However, except at soda fountains, or prestige signs like Squibb, the most effective point-of-purchase advertising appears to be that which is tied up with the active merchandise.

The initial cost of point-of-purchase advertising of the permanent type, with the exception of the window transfers, is high, but it is of long service and seems to be quite desirable. No studies appear to have been made that would indicate whether or not it pays the average manufacturer. Advertising should stimulate to action and none of the methods indicated above are more than mere indicators of the fact that the product is on sale in a particular store. Sometimes, where used as a means of creating dealer

good will, or when they give the public an extra service, as, for instance, the outside thermometers, they may have a sales-stimulating value.

Inasmuch as the public knows that most drug products are on sale in the drug store, and has become accustomed to ask for what it wants, it would seem to be questionable whether displays warrant the large expense involved. Some advertisers using dealer's store fronts, however, regard it as excellent advertising. They say that you do your advertising right at the point of purchase and therefore you link the desire to buy with the opportunity to buy. Certainly, it is a prominent place to advertise since all people who buy pass it and they are likely to see your advertisement. In the case of competitive products point-of-purchase, advertising could be very valuable. There can be many a slip between "mass" advertising and the actual purchase of a product by the consumer. A reminder at the point of purchase might be just enough to cause the consumer to buy the product of the advertiser in the store to which he has gone even though he may be indifferent to any particular brand of that product.

Ex-Lax is a large manufacturer who paints many windows, particularly in New York City. They have in recent years distributed thousands of thermometers that have been placed outside drug stores. Squibb, Mulford, and Johnson and Johnson are large users of inside glass and paper signs, drug store windows, and doors that are literally plastered with decalcomanias and transfers from top to bottom.

Semipermanent Displays. In the category of semipermanent displays we place the more durable counter pieces, floor pieces or selling fixtures of similar character, such as are usually used by some cosmetic and drug manufacturers, which combine the element of display and merchandise storage.

Usually the display fixture is in use as long as the merchandise in the unit is available for sale and is kept in stock. In most cases of this kind, the display unit is supplied along with the stock of merchandise. Display fixtures of this kind are in use by many manufacturers of drug products, notably Johnson and Johnson, Bristol-Myers Company, Colgate, Pond's, Caren Perfume, Alka Seltzer, and others. Sometimes these display units are rather elaborate, and are a complete or large part of a merchandising campaign. This is particularly true of the special display unit sold to druggists by the wholesale houses, members of the Druggists' Supply Corporation. In this case ten manufacturers collaborated on the cost of the unit, and each of them had his proportionate part of the cost of the display for his own products. Some manufacturers are now offering display fixtures that are designed to become a permanent part of the store's layout.

Dr. Scholl's Foot Appliances, Cross Nail Files, and Ace Combs all have elaborate counter display cabinets sold in conjunction with a minimum

stock of merchandise. In a number of these cases the display cabinets also serve as fixtures for stock so that they combine both display and utility. They are removable. They frequently go out of style as something new and more attractive is created. While they are in use they serve the several purposes of attracting customers to the products, of giving easy access to selling stock, and in many cases of giving the dealer an opportunity to keep surplus stock within easy reach. Because a minimum purchase usually must be made to secure the display cabinet, many dealers are induced to increase their original purchases and subsequent stock on hand. Even so the turnover may be more rapid because of the aid these give in selling. In offering this type of display paraphernalia, manufacturers generally arrange the size of the unit sale to the dealer so that the volume is sufficient to absorb the cost of the display piece. The display cabinets are made of metal, wood, heavy cardboard, or glass. They must be strongly constructed to achieve fair durability and attractive in design to insure permanency. In some cases the display piece is also the shipping container, which makes for economy in marketing. Attractiveness of the merchandise generally aids the selling effort greatly.

The value of these semipermanent displays is suggested by some reports made by the Forbes Lithograph Company through *Modern Packaging*.[1] Alka Seltzer was displayed in a "counter basket" arrangement and tested for a three weeks' period in eight widely scattered Boston drug stores. The sales doubled during this period as against the previous three weeks when the only display was the product on the shelves of the respective stores. The next test was with Listerine Shaving Cream and for a similar period three weeks without the basket and three with. The second case was not so clear-cut a test as Alka Seltzer for a number of reasons. The sales between the two periods tripled but the increase was probably partly due to a combination offer. However, many of the testing druggists were of the opinion that the special offer alone could not account for the increase. The Point of Purchase Advertising Institute, in New York, has gathered together a large number of cases showing results from window and store displays, including what might be called principles of effectiveness that should be studied by everyone in these fields.[2]

Temporary Displays. In the category of temporary displays we place window and counter cards. This form of display material sometimes is very elaborate. The piece may be small or large, although in preparing the material, it is necessary to see to it that the display is not so large that it will not fit in most retailers' windows or on the counters.

[1] March 1936.
[2] *The Resume*, 1945.

There are important considerations to bear in mind in connection with with window display.

Value of Window Displays as Advertising. A survey was recently made as to the relative value of window displays in the drug stores, and from this survey we can acquire some interesting statistical information that will be a guide as to the percentage of the advertising appropriation to be devoted to window-display work. Before it is possible to estimate the effect of window displays on sales, it is necessary to find out: (1) the number of passers-by in proportion to the number of prospects in the territory; (2) the proportion of men and of women among those who stop in front of the window; (3) the length of time the display is kept in the window; (4) the reaction of the dealer to the window display in terms of effort to sell, and (5) the best methods of obtaining satisfactory window cooperation from the dealer.

The results of the survey of store display indicate that the dealer looks upon his window as an essential means of stimulating sales. As a matter of fact, from the total of 1042 dealers questioned, the value of window displays was appraised as follows: [3]

Considered windows of great value	65 per cent
Moderate value	27 per cent
Little value	6 per cent
No value	2 per cent

It is also noteworthy that of those who changed windows frequently, 81 per cent are included in those who considered displays of great value. The druggists themselves had the highest respect and consideration for the value of their windows. As a matter of fact, the druggists really have such a high opinion of the value of their windows that they do not want to give them to special displays unless they are paid for doing so. It has long been an axiom in the retail trade that people are tempted to buy goods somewhat in proportion to the attempt made by the merchant to display his product. The open displays of merchandise have aided variety stores to grow as they have.

Therefore, every manufacturer should remember that he ought to arrange to place as much merchandise in the view of the public as he possibly can. It is the display of goods at the last point of sale that gives that necessary final stimulus to purchase. In no way can the display at the last point of sale be used to better advantage than by a complete and simultaneous tie-up between merchandise, window display, and other advertising.

Dealers, themselves, realize the importance of this. The display manager of L. K. Liggett Company in a talk before the Window Display Advertising Association brought out the importance of window displays to their

[3] *Ibid.*

sales, and the necessity not only for many attractive windows but, what is more important, for arranging these windows in such a way that the merchandise on display is combined in a naturally related manner. Liggett's have demonstrated over and over again, through actual experience and checkup, that as soon as their display material was curtailed sales dropped, and as soon as this condition was remedied sales picked up.

DISTRIBUTION OF DISPLAYS

There is also the question of distributing displays. It is not always easy for the manufacturer to get his window displays in dealers' stores; it frequently depends on how the material is distributed. There are several ways of doing this. It is important, however, to consider, first, the size and utility of the display, and, second, elimination of waste.

Size and Utility of Displays. Displays should be so constructed that they can be easily used by the dealer. Dealers usually do not care for counter displays larger than 10 × 14 inches. Larger pieces should be flexible and compact. Displays for window use should usually not be over 12 inches deep, as many drug store windows are not much deeper than that. The dealer does not want a window display greater than 36 inches in height and 48 inches in width. The tendency in window displays is for a multiplicity of smaller pieces and a showing in sequence of the preparation of the product, rather than an elaborate piece. This is especially desirable where the manufacturer does not expect to dress windows, and is depending upon the dealer to do that himself. Where windows will be dressed by the manufacturer, this is not so important, but the display of a liberal quantity of merchandise along with a few attractive display pieces represents the most effective method used now. It should be borne in mind that ideas change as to types of display and the manufacturer should always be on the watch for new developments in this branch of sales promotion.

All too frequently display material is out of proportion to the space it can occupy. At one time, three panel displays were the vogue for drug store use. Recently, it has been recognized that the dealer will not give too much space to one product, largely because he has so many, and therefore the tendency now is to reduce the size of the display piece. Small display pieces will be used frequently on the counter if not in the window, whereas large pieces find their way promptly to the junk pile.

The practicability of any display is very important. Merely designing and creating an attractive display does not necessarily mean that it is going to be used; nor does mere promiscuous distribution of expensive display pieces mean that the money set aside for that purpose is being efficiently spent.

Elimination of Waste of Display Material. Since waste is costly it is desirable to eliminate it. It behooves any manufacturer to be careful as to how his display material is being distributed. He should be liberal but not wasteful, and should use the generally accepted methods of distributing display material that assure him of maximum use and minimum waste.

The best merchandisers among drug manufacturers do not generally distribute advertising material through wholesalers. In most cases the display material is shipped direct to the dealer to be installed by him, or else it is installed by either company representatives or display service companies. Although many wholesalers have display service departments, their methods of distribution are no different from those of the display installation company. Neither these wholesalers nor any others can be depended upon to distribute the display material to the dealer unless they are specifically employed, and paid, to install it. Therefore, the cost of installation must be added to the advertising budget.

It is the consensus of the trade [4] that distribution of display material through wholesalers is usually wasteful. As a rule, the wholesaler pays little or no attention to displays. He has ordinarily so many items to watch and must operate at such a low markup that he cannot possibly give displays any more than casual attention. There are exceptions to this as may be seen from the recent effort of one of the wholesalers in Milwaukee, Yahr Lange Company, who offered a free display service to the dealer. It was their thought to reduce the waste of material supplied by manufacturers. They realized that a large part of the displays being sent out was absolutely wasted. Their plan was to offer the retailer the choice of whatever display he wanted. This made available to the dealer a ready source of display material at all times. He selected for display purposes only those items that he wanted, and the manufacturer's cost of distribution was thus reduced to a minimum.

Where a retailer does not ordinarily dress his windows, it is advisable for display material to be sent only on request. Salesmen, therefore, should be instructed to be very careful in placing orders for display material and they should impress upon the dealer the desirability of asking for display matter only when he intends to use it. Generally, if a display is suggested when an order is placed, the dealer is more than likely to use the material. At that time he is most interested in the product. Having shown sufficient interest in the merchandise to order it, he is more likely to make use of any material available to move the goods than he would at any other time, when his interest may have grown cold.

When displays are distributed freely if dealers are not advised that the

[4] Survey of Drug Members of National Advertisers Association.

display is coming it may be placed in the cellar or sidetracked behind the counter or showcase. This is even more likely to happen if the display material arrives when a clerk is in charge of the store. To arouse the dealer's interest he should be advised when display material is sent and shortly thereafter he should be sent a followup as a reminder to look for the display piece. At least there is then less chance of the display being put out of sight and out of mind.

Manufacturers whose salesmen have ample room in their cars find it to their advantage when soliciting the trade to give retailers display pieces and to assist in setting them up. This is especially true where salesmen are operating out of town, covering wide territories away from the main headquarters of the company. When this method is used display distribution takes place efficiently and with a minimum of waste. At least, most display pieces are actually used rather than just buried.

Installations by Display Service Company. It is possible to cover completely a community or series of communities with window displays by use of display service companies. The advantages of installed window displays lie in the fact that the manufacturer knows that his window display piece is being used and is being installed in an effective manner. However, the advisability of a campaign of this kind depends entirely upon the budget of the manufacturer, and extent to which his appropriation provides for display work. In most cities orders for installation are even booked by the display companies. Very frequently it is necessary to pay not only the installation company for putting up the display but also the dealer, who expects some free merchandise in exchange for his window. Unfortunately, it is not always possible to get the best windows in this way. Usually the high-spot stores in any territory are not inclined to give up their windows exclusively for one product. The result is that in order to get displays in windows of the higher-traffic stores, special arrangements must be made with those dealers who can be induced to tie up with a proposition that is offered. Where chain stores have the most desirable sales outlets and window circulation, the most that can be hoped for is a small part of the window. These display arrangements must be made through headquarters of the chain.

In addition to making sure that display material is used, another advantage of employing service companies is that it is possible through them to secure full coverage simultaneously in a community. This procedure gives the manufacturer the opportunity of timing his advertising and display so that they both reach the eyes of the consumer at the same time. The means of doing this lies entirely in the hands of the manufacturer, who can exercise his preference with regard to the advisability and the necessity of extensive window tie-ups.

The cost involved in putting in the display window depends upon the number of people likely to see it and the expected return in sales. This varies to such an extent that each case calls for bargaining. Some druggists are paid as much as $2.50 to $5.00 per window, most often in merchandise. Some druggists have leased their windows to window-dressing companies who charge $2.00 to $2.50 per month for a portion of the window, generally confined to nationally advertised products. To this cost must be added the costs of designing and producing the lithographed and other pieces of display material used and the cost of installation. These will add several dollars more per window.

High-spot versus Neighborhood Displays. This brings us to the point of deciding on the value of high-spot versus neighborhood displays.

It is obvious that displays put in high spots will be seen by more people per unit than displays placed in ordinary neighborhood stores. Furthermore, stores in high-spot locations are frequently much more attractive. Their window lighting is superior and the arrangement and tie-up are more likely to attract customers than are those in the smaller neighborhood store.

A recent analysis [5] disclosed that a total of 2.9 per cent of the population of any community is likely to pass a spot in which a display is placed. This was the percentage in a group of cities ranging from 10,000 to 25,000 in population. The large number of persons who pass store windows is understandable when we realize that in the smaller communities there is considerable traffic of shoppers from near-by smaller places. In some communities as much even as 50 per cent of the entire population might pass a group of stores adjacent to one another.

Furthermore, the greatest traffic before display windows was found to be between four and six o'clock in the afternoon. It was noted, however, that the time of the largest numbers of lookers, that is those who stop and inspect the displays closely, was between nine and ten in the morning. From this it can be seen that, although customer traffic in the late afternoon is at its highest, the greatest effectiveness of advertising is in mid-morning, when prospective customers are out shopping, and it is then that there is the greatest likelihood of purchases being made. Points with heavy mid-morning traffic should, therefore, be given careful consideration by the manufacturer who is planning to install window displays.

In a study entitled "What Types of Window Displays Are Preferred by Urban Druggists?" made for *Sales Management* the following results were disclosed: "Independents are getting a larger share of the consumer drug dollar, and this may be due to the display policy of pushing one product at a time instead of scattering."

According to the study the independent druggist features outstanding items as shown by Table 18:

[5] Forbes Litho Company, *Analysis of Display Effectiveness.*

TABLE 18. INDEPENDENTS FEATURE OUTSTANDING ITEMS
(Analysis of 1494 windows of independents, 506 of chains)

Type of Window	Independent	Chain	Average
1. Devoted 90 per cent or more to the product(s) of one manufacturer	55.7%	27.7%	48.6%
2. Products of several manufacturers, but with one outstanding	17.6%	28.1%	20.3%
3. Small displays of the products of up to a dozen manufacturers	14.1%	18.6%	15.3%
4. "Mass" windows with scores of items	12.6%	25.6%	15.8%

The manufacturer should also note the types of display materials most popular with druggists as indicated in Table 19 and the size of lithographed pieces which seem to fit in best and are perhaps most effective as shown in Table 20.

TABLE 19. TYPES OF DISPLAY MATERIAL MOST POPULAR WITH DRUGGISTS
(Analysis of 1494 windows of independents, 506 of chains)

Type of Material	Independent	Chain	Average
Cartons and containers	75.8%	88.3%	79.0%
Large lithographed display pieces	63.0%	46.0%	58.7%
Window stickers	53.9%	67.4%	57.3%
Small lithographed display pieces	52.5%	49.4%	51.8%
Decalcomanias	31.9%	6.3%	25.5%
Large posters and broadsides	6.7%	10.1%	7.6%
Permanent wood or metal signs	3.7%	1.2%	3.1%
Proofs of ads—giant blow-ups	2.5%	3.8%	2.8%
Proofs of ads—actual size	2.0%	11.5%	4.4%
Moving (animated) pieces	1.1%	1.2%	1.1%

TABLE 20. WHAT SIZE OF LITHOGRAPHED PIECE IS MOST POPULAR WITH DRUGGISTS?

Size	Independent	Chain	Average
Under 1 sq. ft.	13.7%	15.8%	14.2%
Over 1 but under 3 sq. ft.	35.4%	39.2%	36.2%
Over 3 but under 10 sq. ft.	43.6%	36.2%	42.0%
Over 10 sq. ft.	7.3%	8.8%	7.6%

MOST EFFECTIVE FORMS OF DISPLAY

It is impossible to set any hard and fast rule as a guide to the type of display pieces that will be most effective. Some very elaborate displays used in high-spot locations only are found to be inexpensive, from the circulation standpoint, because they may be used over and over again. On the other hand less elaborate displays, apparently inexpensive, are rather wasteful because of the carelessness with which they are handled or because they are ineffective in inducing sales. A study using several different dis-

plays, each tried out in several different locations in the same community, with passers-by and actual lookers clocked, should indicate the most effective display.[6]

In the preparation of display material, it is well to bear in mind the relationship of one form of display to another, and to consider whether these displays can be manufactured together economically. The manufacturer, his agent, or his advertising manager, working in cooperation with a lithographing firm, will find it very advantageous to arrange to run various sizes of display material at one time to take advantage of lower cost of production of large quantities produced simultaneously. Displays vary in cost, in proportion to their elaborateness. Experience indicates, however, that a really attractive window display in several colors in quantities of not less than five thousand should be purchasable at no greater cost than $2.00 each, and frequently for less.

One display well placed even at a high cost per location may be more effective from a sales standpoint than twenty-five displays poorly placed in neighborhood stores of a poor grade, or in stores whose customers are not of the type that are potential customers for the manufacturer's product. One cosmetic firm built some very elaborate display units and placed a large number of them in neighborhood retail drug stores in New York City in 1938. Unfortunately, the type of outlets selected did not do much cosmetic business and the results in sales were very unsatisfactory. As a matter of fact, the company found itself in financial difficulties, and undoubtedly one of the contributing causes was misdirected advertising effort. The more valuable the display spot, the more difficult it is to obtain. It becomes necessary, therefore, to make an earnest effort to secure the best type of outlets for display installations as they are usually the most effective even though the most costly in the beginning.

The Package and Displays. Very frequently dealers request dummy packages for display purposes. This practice has increased considerably. But dummy packages are expensive; consequently, where the product itself can be used for window display purposes, it should always be recommended. When the dealer objects to this the salvage value of the package can be considered and a deal satisfactory to both parties might be worked out. The display companies that dress windows can be relied upon to arrange to salvage dummies when these are used and by doing this cut down display cost considerably. If the dealer can be induced to use the actual merchandise in his window, the manufacturer will find his display cost reduced to a minimum. In such cases the manufacturer should be prepared to offer suggestions to the dealer as to the best method of display.

[6] Time and money might be saved by making a study of the cases of effective use of display materials gathered by the Point of Purchasing Advertising Institute, New York City.

Chapter 16

MERCHANDISING THE ETHICAL PRODUCT

This chapter gives specific information about the merchandising of ethical products. Ethicals are important in the drug business because some of the oldest and largest manufacturing concerns specialize in these products, they form the bulk of the druggist's prescription business, and new products are being continually added to the field as a result of scientific research. The marketing of ethicals involves special problems because of government regulations and professional standards. The newcomer in this field needs to know that the merchandising of these products is not a "shoe string business"; however, it is possible to start modestly if one has the proper background and knowledge of how to run the business.

It is necessary for a number of reasons that special attention be given to the marketing of ethical products even though throughout this book ideas regarding their merchandising are given.

IMPORTANCE OF ETHICALS

To begin with, ethicals are a very important part of the drug business. Some of the largest of the manufacturers of chemicals and pharmaceuticals specialize in the production and sale of ethicals. They are old, respected, and successful concerns. The beginner wants to know how they have done this business, so that he may not make costly mistakes. Concerns already in the field need this knowledge because of the amount of business that is done in ethicals. Sales volume runs into hundreds of millions of dollars. The field is an important one to the druggist. The bulk of his prescription business consists of ethicals. Doctors prescribe and specify the items to go into the prescription and many times even the name of the producer. The pharmacist, duly authorized and licensed by the state, is the only one who can fill the prescriptions. For the pharmacist-druggist ethicals are peculiarly his business and for him they constitute a large and profitable business. How large may be seen from the following estimates of prescription sales at retail in United States drug stores:[1]

1940	$176,518,765
1941	195,046,184
1942	222,203,908
1943	265,802,097
1944	302,485,771

[1] Annual census by *Drug Topics.*

For the manufacturers of ethicals the business is much larger even than these figures indicate. They sell not only to drug stores but also to doctors, to institutions such as hospitals, and to government departments like the United States Army and Navy, as well as for export.

The ethical field is important, too, because of its future. During the past twenty years a great deal of research has been done to find new pharmaceuticals to cure or mitigate the diseases to which mankind is heir. Many new products have been developed—insulin, the sulfonamides, the barbiturates, penicillin, streptomycin, and rutin, to mention only a few of the outstanding ones, which give some indication of what has been done and is to come. The next twenty years may see even more revolutionary discoveries. All the above have led to or indicate they will lead to large consumption. This consumption has been principally through doctors' prescriptions and the products have been sold as ethicals. The business in ethical drug products is increasing and it is more rather than less likely to increase in the future as research for cures for influenza, cancer, heart diseases, and other ailments bears fruit.

Another reason for special study of this field is the way ethicals are merchandised. To begin with it should be noted that ethicals are sold through drug stores and other medical outlets. On the other hand the proprietaries and cosmetics are sold not only through drug stores but also through many other outlets, including even grocery stores and barber and beauty shops. This is an important observation for the newcomer in the field because it definitely prescribes the methods of merchandising. You do not use the same kind of salesmen, sales talks, advertising copy, and media nor all outlets. The appeal is different for different products.

With most proprietaries and cosmetics the appeal is to the laity in general, that is, to the public, the mass market, rich and poor alike. "Mass" advertising media are used. At the point of purchase window and store displays are used and the copy employed is of the strikingly simple types that catch and hold attention and that are easily understood. There are restrictions as to approach and methods of sale that are prescribed by the Federal Trade Commission and claims of efficacy by the labeling regulations of the federal department operating under the Pure Food and Drug Act of 1938.

With ethicals, the restriction goes further. Not only must these laws be observed, but also the ethical demands and requirements of the American Medical Association and the American Dental Association. Unless acceptance is obtained from the medical and dental organizations and unless great care is taken to keep the sales approach definitely on the professional basis, ill will can be created that can well prove disastrous. The principal

restrictions and regulations of the Federal Trade Commission and the Federal Food and Drug Administrator are set forth in Chapter 21.

CLASSIFICATION OF ETHICALS

Generally speaking, ethical products may be divided into 3 classes:

1. Standard United States Pharmacopeia or National Formulary products.
2. New medicinal discoveries, such as insulin, penicillin, sulfa drugs, and the like.
3. Patented specialties developed by research of individual manufacturers and offered as specialties—typical example, benzedrene, argyrol, mercurochrome.

In the marketing of a standard U.S.P. or N.F. product—and they include elixirs, tinctures, syrups as well as the standard pills and tablets—the sales approach to the dealer differs very little from that used for other products. Few of these products are ever advertised to the public, although many of them are purchased by the public without professional endorsement. Therefore the sales problem is entirely one between manufacturers and dealers. Sometimes the dealer will buy on price, sometimes because of friendship with a salesman, more often because of confidence in the firm offering the product for sale. When he dispenses the product, whether on prescription or over the counter, neither the doctor nor the user is likely to inquire the name of the manufacturer. A customer for tincture of iodine or a prescription for a cough medicine containing elixir terpine hydrate is not likely to call for any particular manufacturer; therefore the druggist will supply the product he prefers to sell.

In the second group of specialties we are faced with a different selling problem. There the particular discoveries have been restricted in most cases to a limited number of manufacturers. The products are presumably identical; therefore it becomes necessary for a particular manufacturer to attempt to convince the medical profession to recommend his product in preference to that of another manufacturer. This brings with it the problem of an adequate force of detail men both for the profession and dealers and constant promotion to keep the manufacturer's name as a reminder to the professional man of that particular product.

The problem then becomes as much one of selling the doctor as the dealer. While a doctor may prescribe a specific like penicillin of a certain manufacturer, if the patient's dealer happens to be out of stock, he usually will suggest to the physician that of another manufacturer. Since the obtaining of 100 per cent distribution is usually difficult, many doctors are

prone not to mention the manufacturer's name for products of this type so that any brand in the druggist's stock may be used.

With the advent of many new drugs, manufacturers have been trying to acquire brand-name recognition for their individual products. The American Medical Association has gone on record as opposing this policy, believing that all recognized licensees and manufacturers of all new drug discoveries should sell their products on the basis of the type rather than as a creation of a brand name.

The third group of ethical products, that of specialties prepared by the manufacturers as specifics, creates a still greater merchandising problem. There the research efforts and discoveries are the basic background of the manufacturer's efforts. His sales campaign must be double-barreled, to sell the doctor on the idea of prescribing his product and the dealer on the idea of stocking the product. This procedure may in some cases require two different sales staffs and sales approaches, one to the physician and one to the dealer, and two different types of salesmen. The detail man's function will be to explain to the doctor the uses and purposes of new products. With so many physicians returning from the service, who are still unfamiliar with new specifics, the importance of the good detail man becomes self-evident. Generally, this type of representative must have:

1. Knowledge of some science preferably pharmacy.
2. Ability to absorb technical details and to talk effectively and persuasively about them.
3. An agreeable and impressive personality.

The men who are selected to sell the dispensing doctors ethical products need not have the same scientific knowledge as the detail man. Their problem is to make the sale and since they are, most likely, selling standard products that are more or less familiar to the doctor, the scientific background is not so important as it is for the salesmen detailing the prescribing doctor. The same type of representative selected and trained to meet the doctor can be selected to call on dentists or veterinarians.

The salesman who calls on the dealer may be a regular member of the staff or he may be specifically trained to call on doctors and druggists in the same territory, particularly if he is working on a specialty. For additional treatment of salesmen, their selection, training, and direction, the reader is referred to Chapter 9 on sales organization.

PRICES AND DISCOUNTS

Ethical products are rather free from restrictions resulting from competitive efforts. If the product is an exclusive specialty to be dispensed on prescription only, the price fixed should be within the range of the aver-

age price charged for prescriptions, that is, between $1.25 and $2.50. Where the original package may be dispensed, the dealer's margin should be adequate, at least 33⅓ to 40 per cent off the retail price. One firm is embarking on what they call a fee basis for the retailer where extra discounts or fees are allowed for the manufacturer's products the druggist recommends.

TRADE PRACTICES

The wholesale discounts range between 16⅔ to 25 per cent, depending on the custom of the manufacturer with his other products. Where products have a dating factor, in other words, must be used within definite periods, manufacturers always have the obligation to exchange all merchandise that may be outdated. This applies also to merchandise in the hands of the retailer. Therefore care must be taken not to oversell retailers. Freight is usually allowed on all products and the standard terms are 2/10 net 30 as a rule, although some manufacturers adopt the controlled distribution policy by working on a consigned stock basis only with a limited number of wholesale outlets in any territory.

ADVERTISING AND TRADE PROMOTION

An ethical product, it should be remembered, is one that is not only prescribed by the profession but that is also sold in an ethical manner. This restriction of marketing in an ethical manner prescribes the methods to be used by the dealer and the kind of advertising promotion to be used. Since advertising to the laity is not necessary, it is clear that many of the accepted ways of advertising are eliminated. This leaves out magazines, radio, newspapers, outdoor display, and much of the indoor display and leaves open chiefly detailing, sampling, and profesisonal advertising, plus professional endorsement where this can be secured.

Along with detailing goes sampling to the profession. Generally, this method has proved very effective in interesting doctors and securing their endorsement. However, the methods used in distributing samples should be checked carefully. Frequently sample distribution is wasted, for it does not produce the results intended. Where samples are not distributed with discretion the druggist complains with good reason that too free distribution of samples cuts down his sales, as doctors may use these excess samples for their patients.

Samples may be distributed by direct mail, by detail men, or in response to requests received from medical journal advertising. Advertising in many local and national medical journals and drug association papers may be used to back up field men. These are generally accepted methods and help pave the way for the efforts of the field men.

Probably the wisest way to sample is to combine all three methods indicated above. Advertise in the medical journals most freely read by doctors and invite them to send for a sample. After a period of time repeat the invitation every so often, then mail a sample to a selected list of doctors. A suitable time after this sample has been dispatched, send out the detail men to call on the doctors with further samples to be left after they have sized up the doctors' reaction to the use of the product.

Enough samples may have to be given to some doctors for them to try out on some of their patients. Many general practitioners have a number of "guinea pig" patients on whom they can try some of the products. The results, if apparently favorable, encourage them to prescribe the product.

The procedure just suggested calls attention ethically to a product sufficiently to pave the way for the detail man and at the same time distributes samples with enough control so that they do not become obnoxious to the druggist by interfering with his sales.

Since direct-mail advertising is an important device in the sale of ethical products considerable care should attend the use of it. In Chapter 14, on advertising drug store products, detailed treatment is given to it within the space limits at our disposal. It is in order here to emphasize one aspect of direct-mail advertising. In selling ethical products one appeals to a highly select group of customers. Doctors, to whom the appeal is most frequently made, are usually well-educated, cultured scientists who are interested, because of their ethical concepts, in curing or mitigating the effects of disease. The appeals that a producer or distributor makes to them must be of a high order. They must explain in detailed fashion in a scientific way just what is being offered and what it does. The language used, while it can be simple, must be clear and grammatically correct. The paper and envelopes used must match the high task you are trying to accomplish. Since most doctors are busy men your appeal must be made frequently to hold attention and secure action.

PROFESSIONAL ENDORSEMENT

Acceptance by the American Medical Association or the American Dental Association is advisable for any product for which professional use or recommendation is needed. The standard conditions for obtaining this endorsement include particular care in the method of preparation, limitation of claims of curative powers to known and proved results, and care in the methods of selling. Without this approval, the chance of obtaining effective constant prescribing or recommendation by the profession is materially cut down.

GOVERNMENT RESTRICTIONS

In all the above, we have not forgotten the requirements of the regulations promulgated under the Pure Food, Drug and Cosmetic Act of 1938. When it comes to specialties, the regulations become doubly important. All claims of curative power, all labels and other literature must be approved by the Administrator of the act and great care be taken that the requirements of the act be adhered to. Further details on these functions will be found in Chapter 21, to which the reader should refer.

HOW TO START A BUSINESS IN ETHICAL PRODUCTS

For the newcomer to break into the specialty field is not easy. Not only does he have to follow the very carefully prescribed rules and regulations of the Food and Drug Act, the restrictions of the medical profession and American Medical Association, and go to the expense of getting individual endorsement, but also he has to face the problem of the competition of the many large firms in the field, who have large research and detail forces and many years of accepted good will among doctors and druggists to back them up. Even today, many of the large firms with ample finances find the ethical field in specialties and standard new remedies giving them many merchandising and sales problems, which they are trying hard to solve by the development of a host of merchandising devices that may do the job.

In entering this field, the beginner must realize it is not a shoe-string proposition because:

1. It takes money to develop a new drug or manufacture an old one:
   a. Certain conditions of manufacture required by regulation must be met;
   b. Research is costly.
2. Strong financial resources are needed to compete against firms already established, who have gained the confidence of the medical fraternity.
3. It takes money to detail both physicians and druggists:
   a. Doctors can be called on only during office hours unless appointments are made;
   b. High grade, therefore expensive, salesmen are necessary;
   c. They need a special training to break into a doctor's practice even during office hours and not give offense.

However, it can be done on a moderate amount of capital more easily with old standard drugs than with a new item that has to be pioneered. But even with a new one this can be done if they know scientists in the field who are developing new items and who will let a newcomer handle it, as was the case with vitamins.

The recommended method for any newcomer, with a good idea and limited means, is to select a working area that can be covered by the entrepreneur or a single representative. The field representative would call on the physicians, tell the story to arouse their interest, and then call on the druggists in the area to acquaint them with what has been done. Since there are many small local medical papers, a limited amount of prestige advertising is possible. This method has been employed many times in building up individual specialties for specific treatments. This type of specialty runs to hay fever remedies, treatments for athlete's foot and similar items, where medical endorsement and druggist recommendation can be worked together.

There are several words of caution to suggest at this point: (1) All manufacturers must exercise great care and see to it that, even though their product is being marketed as a strictly ethical one, the public does not become too familiar with its purposes and uses and gradually force it into the class of a proprietary. This has happened in the past in many cases and the result has been the development of ill will on the part of the dealer and the medical profession.

(2) The economic health of the market needs careful consideration. In a period when most people are enjoying high incomes they are inclined to consult the doctor more frequently. The doctor then prescribes ethical products, and proprietaries may suffer. Witness the withdrawal by Standard Brands, Inc., in 1944, and Lever Bros. Co. in 1946 from the market of their proprietary brands of vitamins. The cost of repeat sales was apparently too high for them. During the same time the sales of "ethical" house vitamins have been very large.

(3) The developments in health education need to be watched and appraised. As research reveals how complex treatment of diseases must necessarily be people may resort more and more to physicians and rely less and less on self-medication. The reverse of this may take place where simplification occurs and people learn more and more about simple remedies which relieve, if they do not cure, and use them without consultation with their doctors.

(4) The old saw "Shoemaker, stick to your last" may also affect some people's action. After all what is there about a soap maker or a food manufacturer and distributor to suggest that his specially prepared pharmaceutical is better to take than that of an old-line pharmaceutical house which has carried on research and manufacturing in the health field for many years?

A CASE OF ETHICAL MARKETING

As an illustration of ethical marketing one could note the advertisement of the S. E. Massengill Company in the New York State Pharmacist, Decem-

ber, 1946. A full page illustrated advertisement calls the attention of New York pharmacists to one of their products, Livitamin. The advertisement states of what the product consists and the bodily conditions it corrects. Then it goes on to tell the druggist how Massengill is promoting it. The Company says it is being advertised by

1. Full page ads in 38 medical journals.
2. Direct mail advertising.
3. Aggressive detailing.
4. Literature that is available on request of the pharmacist for distribution to physicians in his community.

The advertisement then states the form in which Livitamin is available and the illnesses for which it should be prescribed. Emphasis is placed on the facts that the product is ethically promoted and priced right.

The advertisement has attention value, it is easily read, it is at the same time technical in its copy and the product advertised stands out in the ad leaving no question as to what the advertisement is about and why.

Chapter 17

PRICE LEGISLATION

This chapter deals with the efforts made by businessmen in the fields we write about to prevent the price cutting inherent in keen competition from causing ruin to some in these industries. These efforts have been largely to secure state and federal legislation that might prevent price cutting. Such legislation was secured and now legally at least price discrimination is prohibited and price cutting on branded lines can be prevented by contracts between producers and dealers. Many of these contracts have been entered into and prices stabilized with probably no great loss to consumers and perhaps some gain to dealers. The chapter tells roughly what these laws permit a producer to do. It is the thesis of the chapter, however, that businessmen should not rely forever on such favorable legislation. Rather the legislation should be used as a respite from the competitive fight to become more efficient so as to be prepared for the day when competition may again be the rule in the market place.

A producer or marketer of goods is not free today to follow any price policies he may wish to establish. There is now much federal and state legislation to which he either must or may conform. Most businessmen are acquainted with the force of the limitations in the Sherman Act and state laws patterned after it. But not all are even aware of, let alone acquainted with, the forces in the recent national legislation such as the Robinson-Patman and Miller-Tydings Acts and the state fair trade and unfair practices acts. The Robinson-Patman Act is designed to prevent various types of price discrimination. The Miller-Tydings Act is designed to enable concerns engaged in interstate trade to enter into price maintenance contracts in states having fair trade acts. The unfair practices acts are designed primarily to put a floor under all retail prices, but they are not of as much interest as the others. Our interest is mainly with the fair trade acts implemented by the Miller-Tydings Act. The drug and cosmetic interests, while they gave moral support to the Robinson-Patman and state unfair practices acts, were mainly interested in the price maintenance acts.

This was probably due to the facts that retail druggists buy usually in small lots and have a relatively large markup. There would be no savings they could claim, and a discount of even a fair amount to a large buyer need not ordinarily be disturbing. They were, however, disturbed by the price cutting of certain blatantly advertised cut-rate stores. Especially was it disturbing because of the shift from prescription business to greatly in-

creased sales of proprietaries and cosmetics on which price cutting was general and severe, in metropolitan centers particularly. The retail druggists sought for a solution, finally found it by forcing through legislatures fair trade legislation, "And why not," said they, "if by it we can assure ourselves profits?"

Both of these types of legislation will be discussed. The principal part of the discussion, however, will have to do with price maintenance. The price discrimination act will be presented first and then price maintenance.

PRICE DISCRIMINATION

The Robinson-Patman Act is an amendment to the Clayton Act of 1914. Section 2 of the act is divided into several paragraphs which deal with the following:

> One section prohibits discrimination in price in the United States between purchasers of commodities of like grade and quality where the effect of such discrimination is substantially to lessen competition between buyers of the same seller or tend to create a monopoly or injure competition in commerce. Where the discrimination in price can be justified by actual savings which can be proved, the act does not prohibit. The Federal Trade Commission need make out only a prima facie case and the defendant then proves his innocence. This will require honest and intelligent analysis of costs made according to rules devised by the Federal Trade Commission.
>
> Another section prohibits payment of brokerage fees to a buyer on his own purchases or to an agent representing the buyer. This is regarded as an indirect price discrimination because of payment for services regarded as not having been rendered. Several cases dealing with this section have come before the courts and the constitutionality of this section has been approved by the United States Supreme Court.[1]

Still another section forbids payment of allowances and furnishing of facilities such as displays and demonstrations unless they are allowed upon proportionately equal terms to other buyers who are competitors of such customer. These allowances or facilities are not prevented; the act requires only that they be granted on equal terms to all customers. If a buyer of $10,000 worth of merchandise is granted allowances and another buyer of, say, $1000 worth is granted no allowances, the latter may have been discriminated against. Under the act apparently the $1000 customer would be entitled to $50.00 worth of such allowances if the other received $500 worth. Where there is an allowance for advertising as in a window display, the smaller buyer might not receive an allowance if the service he renders through display in his window has no value, because here proportionally equal conditions do not apply. Yet another section of the act provides for criminal penalties for certain of the price discriminations providing for a fine up to $5000 and imprisonment for one year, or both. Finally,

[1] See the case FTC *v.* Great Atlantic & Pacific Tea Co.

further provision is made for cooperatives to pass their earnings on to members without being charged with price discrimination.

The Federal Trade Commission may charge violations of the act on its own initiative or upon complaint of an interested party.

This act mandates the commission to proceed with action, and since the passage of the act the FTC has issued many cease and desist orders. However, some cases involving important business concerns that have come before the FTC have been dismissed either because the evidence did not warrant an order, or the case did not come under the jurisdiction of the law. In some cases decided affirmatively by the commission, action has been taken in the United States Circuit Court of Appeals. It remains to be seen what the courts will decide with respect to each section of the act. Pseudo-brokerage fees have been decided as invalid under the act.

The final result in the Robinson-Patman Act situation may not be to the liking of the manufacturers and small merchants who were active in getting it through Congress. Price discriminations will exist only if they cannot be justified by differences in costs of selling different sized orders. The evidence with respect to marketing cost all shows small orders are almost prohibitive to handle. Consequently, greater price discriminations than those which provoked the law may turn out to be legal and may, perforce, become the usual thing.

RESALE PRICE MAINTENANCE

While the general public has been made familiar with the subject of price maintenance largely because of the publicity given to the Sherman Anti-Trust Act, the Clayton Act, and the efforts of the government to prevent monopolies and price-fixing agreements, the subject has been one that has agitated the drug field for over forty years and is still the cause of concern, although considerable progress in solving the problem has been recently realized. It may be that for a short period at least the matter is settled.

Unlike the usual horizontal price fixing agreements, which run afoul of the antitrust laws, price maintenance in the drug field is primarily the attempt on the part of a manufacturer to fix resale retail price on *his* product that will prevent it from being used as a loss leader, that will protect merchants in their profit margins, and that will retain good will created by the manufacturer at the expenditure of many thousands of dollars for advertising that developed consumer brand consciousness.

It does not permit the type of agreements between manufacturers or dealers of similar products, prohibited by all our antitrust legislation, by which two or more manufacturers would agree to sell their products to

dealers at the same price or even to set similar retail prices. Price maintenance in the drug field developed entirely around the idea of preventing unfair retail price cutting and is, therefore, a vertical and not a horizontal agreement. In that respect, at least, it is not a monopolistic device. Nevertheless, this legislation has been challenged by the United States Attorney General's office as relying on horizontal agreement for its enforcement by interested parties, and as being monopolistic in nature because the law binds all dealers in a state when only one dealer has contracted with a producer. He has called for repeal of the Miller-Tydings Act by Congress. If this eventuates it is thought that the state fair trade acts will lose much of their efficacy. To secure the repeal, however, will not be easy and a long time is likely to pass before it is accomplished.

The United States Attorney General's office is also attacking the law through court action. This office is contending that in the enforcement of state fair trade acts dealers and others conspire to fix "high arbitrary and noncompetitive prices" and to boycott those who do not conform and that, therefore, they are in violation of the Sherman Act. Several indictments among drug interests have been secured. Also in other fields, notably in the liquor industry. Here a case started in Colorado and has reached the United States Supreme Court. The court rendered a unanimous decision in favor of the United States Attorney General's office.[2] Considerable vigilance will have to be exercised by those concerned to avoid violating the Sherman Act while pricing under the fair trade acts.

RISE OF PRICE CUTTING

Very early in the twentieth century the specter of unfair price cutting in the retail drug field first made its appearance. The few chain drug organizations then in existence and the drug stores at the principal traffic corners started the practice of cutting the regular retail prices on "patents," now called proprietaries, in order to increase customers and to stimulate trade. In the early years of price cutting, brand consciousness was largely concentrated on patent medicines. Cosmetics were not generally used by women, the use of tooth paste and other toilet goods was limited, and the department stores as a toilet goods outlet were negligible and had not yet adopted the "loss-leader" policy in toilet department merchandise.

The initial agitation in the National Retail Druggists' Association brought about an attempt on the part of the Dr. Miles Medicine Company to enforce a resale price agreement between itself and retail outlets. The United States Government sued under the Sherman Anti-Trust Act and not only was the Dr. Miles Medicine Company prevented from enforcing

[2] *Business Week*, Mar. 10, 1945.

price maintenance contracts, but the members of the National Retail Druggists' Association were enjoined by the court from entering into any such price-fixing agreements.

This suit served to stop price maintenance agitation for a few years, and represented a severe defeat to the retailer. For the time being the retailer was not hurt by the decision since new drug business was increasing rapidly. However, new situations soon developed to plague the independent retailer and ways and means were sought out to secure some abatement or protection from the worst of the price cutters.

Rise of Loss Leaders. Generally, in the early 1900's, there was little price competition from department stores, or other nondrug outlets. Toilet articles in the larger stores were generally built around fine perfumes, nearly all imported, some high-priced domestic treatment lines, and high-grade toilet soaps. Face powder was sold to a small degree. Rouges and lipsticks were considered the exclusive hobby of the stage and the demimonde; bath salts, eye preparations, and hair products were just a small part of the departments' business and in most cases sales were negligible.

A combination of circumstances brought about some radical changes with resulting increase in toilet goods sales. First, the adoption of bobbed hair by women gave tremendous impetus to beauty shops and the sale of all kinds of hair preparations. World War I, with many women going into industry, gave women more pocket money to spend and they spent some of it on beauty products, stepping up the sales of all toilet articles, including rouges, lipsticks, and a broadening of products heretofore reserved for the wealthy and that were usually high priced.

Naturally, manufacturers in the field, watching the trend, increased advertising budgets, made consumers brand conscious, and, what is most important, increased the market for everyone in the industry by developing and advertising new uses for old products, and creating new business with new ideas in individual beauty and personal hygiene. A good illustration at this point is found in the increase in sales of deodorants, sanitary napkins, and other formerly "shush" products very seldom used and never mentioned.

As far as records show, there has never been a single price-cutting department store, perfume shop, or pineboard store that ever successfully developed a new drug store item or created a market for it by stimulating public acceptance and use. What they have done has been to try to divert business created by others to their own lines by adopting "loss-leader" policies and encouraging switching.

When cutting was done on patent medicines by the druggist, only he was somewhat hurt; very seldom the manufacturer was. After all, there were not many cutters, they were fairly well scattered, and while the inde-

pendent druggist did complain about it, it had very little effect on his business except when his store was close to a cutter.

However, when price cutting became the backbone of the sales policy of every chain drug group, of many department stores that tried to sell toilet goods, and of the perfume shops and pineboard stores, conditions became really serious for many of the regular independent drug store owners.

The use of loss leaders and resort to deep-cut prices on well-advertised brands has been prevalent apparently to a greater extent in the drug field than in any other. The reasons for this are quite apparent. The public, educated through advertising to brand values, very often was easily induced, through means of cut prices on advertised products, to believe that the other products sold in the store of the price cutter were equally underpriced. The cutter does not hide his purpose of using loss leaders to attract trade into the store and then to attempt to switch the customer as far as he can from the advertised loss leader to products of his own preference that offer the dealer a considerably larger profit (usually sold under his own brand name or a brand he controls). The margin between cost to produce and the retail sales price is so large for many products in this field that it is not difficult for the price-cutting dealer to have on hand an unknown brand that can be sold even below the cut price and still yield a profit.

This was indicated in devastating fashion by the American Medical Association in a poster displayed at one of their annual conventions from which we quote. Except for those items that apparently lost their proprietary standing the situation now remains the same as shown by the 1945 prices in Table 21.

That is, $6.40 in 1931 bought as much as $25.30 before products became proprietaries. In 1945 a similar situation prevailed.

The manufacturer regardless of retail price cutting generally has an ample margin of profit on his gross sales. Despite the fact that manufacturers' prices of proprietaries are high enough to earn large net profits, there is some merit to the objection to price cutting that proponents of price maintenance have expressed, namely, that the producer of the unknown brand incurs none of the cost of making his brand known; he simply takes advantage of what others have done in developing consumer habits in the use of products in a large way. This development has been brought about by branding and extensive advertising, involving large expenditures of money.

At first, price cutting was confined to the so-called "high-spot" retailers in high-traffic neighborhoods. These retailers felt that it was necessary to have the passing public carry away with them the belief that low prices prevailed on all lines of merchandise. This practice attracted the attention

TABLE 21. WHOLESALE DRUG PRICES, MAY, 1931[3] NOVEMBER, 1945[4]

Proprietaries	Ounce	Ounce
Phenacetin	$ .63	$ .18
Aspirin Bayer (100 Tablets)	.85	.59
Veronal	3.00	3.00
Atophan	2.75	2.75
Duotol	1.07	1.07
Urotropin	.60	.25
Tolysin	2.25	2.25
Luminal (in ⅛ oz. cartons)	6.90	1.50
Trional	1.90	.70
Sulphonal	1.70	.57
Diuretin	1.85	1.85
Aristol	1.80	.50
Total	$25.30	
Nembutal		5.10
Thiocal		1.50
Benzedrine Sulfate (250 Tablets)		5.43
Total		$27.24
Nonproprietary		
Acetphenetidin	.20	.18
Acetylsalicylic (100 Tablets)	.15	.19
Barbital	.70	.59
Cinchophen	.35	.42
Guaiacol Carbonate	.27	.29
Methenamine	.13	.06
Neocinchopen	.97	1.04
Phenobarbital	1.75	.44
Sulfonethylemethane	.50	.70
Sulfonemethane	.40	.57
Theobromine Sodium Salicylate	.30	.30
Thymol Iodide	.68	.44
Total	$ 6.40	
Pentobarbital Sodium		2.54
Potassium Guaiacol		.25
Amphetamine Sulfate (250 Tablets)		.90
Total		$ 8.91

of the chain stores, and these stores gradually increased their range of loss-leader items until practically every nationally advertised product was sold in their stores at figures close to actual cost, if not at or below cost.

Dealer Attitude on Cut Prices. Dealer cooperation is necessary for the successful sale of any product. If a manufacturer permits his product to be cut so that it becomes a football, experience shows he will lose dealer cooperation. The retailers' associations tried successfully to foster price maintenance and to get manufacturers to cooperate toward that end. Now

[3] Q. F. Walker's statement in House of Representatives *Hearing on Resale Price Maintenance.*
[4] Taken from 1945 catalogs and trade lists.

they are urging manufacturers to operate under fair trade contracts and helping them to police the industry. Some dealers have always felt that by cutting prices they are in a position to do more business and gain increased profits, because with greater volume and increased turnover they would benefit. Of late years, however, particularly since the depression, the number has declined and even the chains realize that higher expenses and lower turnover require increased gross profits, as well as greater volume, and consequently have been in favor of resale price contracts.

The following condensed summary of the retailers' opinion as to price cutting is presented because dealers' attitudes are important to manufacturers:

1. Druggists feel that drastic cut prices are due to the manufacturers: (a) Giving discounts and deals that can only be received or used by the cutter; (b) By choosing these cutters as customers, knowing that these cutters will destroy the selling price of the manufacturer's product when he has plenty of merchandise; (c) By encouraging a minimum price that allows less than overhead profit to the retailer who cannot take advantage of deals and quantity buys; (d) By forcing on the retailer deal after deal until a cut price results in an effort to get rid of the overstock of merchandise.

2. That when one popular item is cut to sell at cost the retailer becomes antagonistic toward the entire line.

3. That the druggists of Alameda County are selling competing items in place of nationally advertised items at every opportunity when the advertised item is sold by drastic cutters at or around cost.

4. That these druggists, in order to help the sale of the competing items, are fast discontinuing all display and cooperative sales effort on the advertised items. That sales on the competing items are showing a marked increase.

5. That while druggists have complained to local salesmen about trade conditions, very few complaints have been sent by the retailer to the home office of the manufacturer of the cut items.

When the manufacturer can establish fair competing prices on his item, then he may expect window display cooperation and a reduction in sales on the competing item.

Conclusion—That the druggists believe that when the facts are brought home to the manufacturers something will be done by these manufacturers; if not, the competing item will have to be pushed harder than ever for the druggist to make enough money to pay his bills.[5]

The dealers in smaller communities did not, as a rule, suffer so much from price cutting, other than from the mail-order houses. Even this, since catalog houses charge postage and drug products weigh heavy, was not as serious as the competition faced by druggists in urban centers. The reasons for the bitterness of urban independent druggists may be noted from what follows.

The Result of Price Cutting. The large operator could not maintain a monopoly on price cutting. The evil gradually spread until even the smallest retailer found that it was necessary for him, if he was to hold any

[5] Report of the Annual Meeting of the Association of National Advertisers, 1932.

customers whatever, to publicize his store as a place of deep-cut prices. However, in order to make it possible for cut prices to be offered with profit, chains began to demand and got advertising allowances, inside discounts, special terms, and even shipments of goods on consignment to be returned if not sold within a reasonable time. This made conditions worse for the small retailer.

As the percentage of hand sales or sales of advertised products increased in the drug store owing to the decline of the prescription business, which was caused by an increase in self-medication, the independent druggist found that his gross profit gradually grew smaller and smaller. For several years before World War II it had been almost impossible for many individual retailers to make any profit on the general run of advertised merchandise and little if any profit on their entire business. Furthermore, they could not compete with the special allowances secured by large buyers, their economic position became precarious, as was evident by the increase in drug store failures, lowered profit margins, and the wage scale of the help.

Chain Store Price Cutting Outdone. The chain organizations soon discovered that there were many other types of retailers who could outsmart them in selling at low prices. These retailers were the pineboard stores, cosmetic shops, small chains, and the large department stores that used their drug and toilet departments as "come ons." Price cutting by these various retailers brought the price battle to the forefront everywhere.

Price cutting to the point of selling at or below costs could not long continue without a change in costs or else a balancing of loss sales with excess profits sales in other directions. Costs are lowered usually as the result of greater efficiency or the use of cheaper material and labor. In the drug and cosmetic industries, manufacturers have all too frequently resorted to cheaper materials with possible ill effect on their customers when price cutting forced greatly lowered wholesale prices.

Price Cutting and Counterfeiting. In the price-cutting stores and in the larger chain stores it became absolutely necessary for the retailer and his clerks to switch and substitute whenever they could do so. This switching and substituting was sometimes subtly done; in some cases it was quite obvious, and at times took on the aspect of a deliberate fraud. The clerks in many of the chains, in order to hold their jobs, were compelled to show sales reports, indicating the sale of at least 30 to 40 per cent of "push profitable merchandise" and in some cases more than that. The need to switch and substitute on the part of the individual retailer led to the counterfeiting of drug products. The independent retailer might not be so clever as to be able to offer his own brand but he could supply counterfeit merchandise, and in many instances counterfeit products were made available to him as a substitute for the regular advertised units. More often than not,

he was gullible and bought merchandise at low prices in order to compete without investigating too closely the source of the merchandise.

Loss of Outlets. The attitude of retailers had effects not relished by manufacturers. When the individual retailer noticed price cutting on any preparation that was having a wide sale, he developed a reaction against featuring or displaying the product. In some cases, dealers refused even to stock the product because of the need to sell below cost and many manufacturers found it impossible to maintain adequate distribution in the face of this violent dealer opposition. For a long time many manufacturers had been trying to find a way to force all dealers handling their products to maintain the fixed resale price. Apart from shipping goods on consignment no way had been found legally to overcome all the difficulties involved in the plan. But not all manufacturers even in the drug industry are in hearty favor of price maintenance. Some manufacturers have felt right along that they could be indifferent to price cutting. This attitude grew out of their belief that the power of their advertising would force dealer acceptance and consumer consumption regardless of the price prevailing at the point of sale, or more particularly, regardless of retailer resistance.

These firms were generally manufacturers of one or two products whose advertising seemingly enabled them to dominate the field. However, this did not hold true in every case, and at all times. Pressure of one kind or another could bring them into line. A few years ago a leading manufacturer of an antiseptic, who for years apparently ignored price cutting by retailers, has, in the face of competition and dealer preference for competitors' products, found it necessary to exert intense effort to maintain fair resale prices on his products and to support price maintenance efforts.

The loss of outlets and complaints by retailers led manufacturers to do the following:

METHODS EMPLOYED TO CURTAIL PRICE CUTTING

Manufacturers had tried for years in various ways to eliminate price cutting. Some manufacturers adopted the method of appointing distributors under price maintenance agreements providing for consigned merchandise. Many of the producers of high-priced cosmetics had been fairly successful in maintaining fair retail prices. Elizabeth Arden was a notable example. Such concerns restrict their distribution to special outlets; consequently not every retail druggist or every department store that sells toilet goods can secure Elizabeth Arden's and similar merchandise. However, whatever methods were used were subject to Federal Trade Commission scrutiny and citations against various firms in the industry were issued from time to time. This tended to make all price maintenance efforts ques-

tionable, and there are always some retailers, chains or otherwise, who cut prices no matter what restrictions are in effect.[6]

For many years, as has been noted, the druggists have been seriously concerned with the efforts to maintain resale prices. Since the famous Dr. Miles Medicine case, decided in 1908, at which time the government succeeded in enjoining the National Retail Drug Association, their efforts have been of little avail except in so far as they could legally induce cooperation to that end.

However, for years the druggist agitated for individual state laws, at the same time trying to compel manufacturers to maintain minimum resale prices. Unless a manufacturer sold direct to retailers and adopted a policy of refusing to sell to cutters, this was very difficult.

The first real result in the direction of state legislation was the passage of the California Fair Trade Law, which made it possible for manufacturers who registered to do business in that state to make resale price contracts. When the Drug Code, under the National Recovery Act, was adopted in 1933, maintenance of resale prices was permitted. In the meantime, continued agitation was kept going in various states to pass fair trade laws, and a continuous stream of legislatures passed such acts. When the code was eliminated, price maintenance could be adopted only by firms that registered in the various states (45 now have such laws). This was quite cumbersome and many firms could not operate under resale agreements because of the interstate character of their business. To overcome this disability a strong effort was made to secure passage of a federal law similar to the Capper-Kelly Act, which had been before Congress for many years. Finally, the efforts resulted in the passage of the Miller-Tydings Enabling Act in 1937. Now it is necessary to register to do business only in the three states without fair trade acts.[7] Since 1937 an increasing number of manufacturers have been sending contracts to retailers and enforcing fair trade and resale prices.

The judges in the state courts seem to be favorably disposed toward the fair trade acts. In one case the court enunciated a set of rules which until changed can probably be used as a guide in the states with fair trade laws similar to New York's. They follow:[8]

1. The suit may be instituted by the owner or holder of the brands or marks or by one having the exclusive right to use such marks in a given territory.

2. The resale price sought to be maintained must be a fixed price or a stipulated price, not merely a price suggested or recommended by the owner or producer.

[6] See report of case Max Factor & Co. *v.* C. G. Kunsman reported in U. S. Senate, *Hearing on Resale Price Maintenance*, 74th Congress, p. 56 ff.

[7] These states in 1947 were Texas, Missouri, and Vermont.

[8] In Calvert Distillers Corp. *v.* Nussbaum Liquor Store, Inc., 166 Misc. 342, 2 N. Y. Supp. (2d) 320 (1938); quoted in State Price Control Legislation, Marketing Laws Survey, 1940.

3. Notice of the fixed prices and of changes thereof must be given to all who are sought to be bound thereby, and this applies not alone to direct changes in prices, but also to changes in discounts and other general business practices reflected in the price of the commodity.

4. To invoke the Fair Trade Act it is unnecessary that agreements providing for the maintenance of fixed resale prices be made with all or substantially all of the dealers in a commodity. It is enough if there are agreements made indicating an intention to resort to the provisions of the act. Nor is it necessary for the owner or producer to sell directly to the retailer; he may deal with a wholesaler who in turn sells to the retailer.

5. A dealer who does not sign a price maintenance agreement is just as amenable to the act as one who does sign. Before any relief may be obtained against him, however, it must appear that he had notice of the fixed prices and of all changes thereof at the time of sale.

6. Implicit in the statute is the requirement that the prices fixed for resale by retailers be uniform in any one competitive area. Implicit also is the requirement that there shall be no unfair discrimination in prices to retailers. That does not preclude discounts or fair variations in prices having a general application in the trade based, for example, upon quantity sold or time of payment.

7. A producer or owner invoking the statute is not required as a matter of law to resort to legal process against every violator of its provisions or of the contracts made pursuant thereto before he can enforce a remedy against any one violator. . . . At least where he does not resort to legal action, the producer is required to use reasonable diligence to see to it that none of his products continue to be sold to a retailer who cuts prices after the producer has notice of such violation. In the last analysis it all comes down to a question of whether the producer or owner by his acts or conduct, whether of commission or omission, may be said to have waived or abandoned his rights, with respect to all retailers, under the statute or agreements made thereunder. He will not be allowed directly or indirectly to discriminate unfairly. In availing himself of the benefits of the statute he must accept its burdens. The Fair Trade Act in its very essence calls for uniform enforcement without discrimination or favoritism. The producer cannot act arbitrarily in enforcing observance of fixed prices. There must be a sincere and diligent effort to prevent price cutting of branded products through legal process if necessary.

8. A dealer not signing a fair trade agreement may not take advantage of the producer's alleged breach of contracts made with others unless those violations amount to improper discrimination, unfair business practices, or indicate an acquiescence in the unlawful cutting of prices or a waiver or abandonment of rights under the statute.

9. The only practical method of securing any kind of enforcement of the statute as now drawn is by way of injunctive relief. To obtain such relief under the state it is unnecessary, generally speaking, for the owner or producer to prove the actual damage sustained. It is sufficient to establish that there is in existence a "good will" to be protected and injury thereto will ordinarily be presumed if there is unlawful price cutting.

The state associations of retail druggists are cooperating with manufacturers in getting contracts into the hands of retailers and aiding in their enforcement. In New York, the association has issued a binder that they sell to retailers at a nominal sum and regularly send out copies of fair trade price lists, as manufacturers issue new price lists and changes. There are now hundreds of manufacturers who have offered fair trade contracts so far, and the number is increasing steadily. A direct result of the passage

of the Miller-Tydings Bill and the state fair trade laws has been the discontinuance of price maintenance actions by the Federal Trade Commission against some leading firms who had been trying to maintain prices under various forms and agreements. Now with resale agreements entirely legal, it remains to be seen whether the oft-repeated statement—minimum resale prices would cure the greatest evil in drug store merchandising—is to be proved. A survey by the New York State Pharmaceutical Association reported on in June 1938 disclosed that after the passage of the Feld-Crawford Act [9] the average reduction in retail prices was 3.4 per cent on drug products. A national survey made for the drug industry showed a 1 per cent decline in drug store prices since passage of the Miller-Tydings Act.[10] These are, however, not conclusive. All studies show that there has been an increase in prices of deep cut products, those usually sold as either loss leaders or at cost in metropolitan centers; and the decrease referred to has to do with quoted resale prices, which may or may not have been followed. The more noticeable effect has been the increase in efforts by leading low-price retailers like R. H. Macy and Company who have been increasing the advertising and promoting the sale of their own brand lines, with considerable success reported. Macy's is now offering its own branded lines to stores in other cities.

Although definite figures are not available individual druggists report a definite increase in sales of former loss-leader items, and very little resistance to the increased level of the minimum prices. The general opinion in the trade of retailers, wholesalers, and manufacturers seems to be that the individual retailer will benefit and that the sale of price-maintained merchandise will be spread from the cutters to the smaller outlets. Since we are still too close to the experiment and a war has intervened we do not know precisely what has or will happen, but hopes are fine things to entertain.

It was difficult to pass a law against price cutting because of consumer belief that it is not to their interest to have resale price contracts. However, now that such laws have been passed and are operating in 45 states, it is up to manufacturers, wholesalers, and retailers to see to it that it is not abused. It is not the purpose or intention of this volume to discuss the general economics of price maintenance from the point of view of the public. In the main, however, it has been recognized for years that this policy is beneficial to the industry and, as such, beneficial to the individual manufacturer. For this reason price maintenance is probably here to stay for a

9 This is the fair trade act in the State of New York under which effective price maintenance can be applied. Under it a manufacturer can enter into a contract with one dealer fixing the resale price and on notice that price becomes effective with all dealers in the state who buy and sell the product which is the subject of the contract.

10 *Fair Trade and the Retail Drug Store,* Druggists' Research Bureau (1940), p. 11.

while and the department stores that have been doing their utmost to stop price maintenance will begin to look around for other means of catching the public eye. The first reaction was a series of comparison advertisements showing the difference in values between privately-branded merchandise and nationally advertised goods. However, the fears of manufacturers in that direction should not be serious. First, when true costs are calculated on some of these privately branded products and the costs of the advertisements are charged against the particular product featured rather than against the whole department, prices on these special competitive products will rise. Then, most drug and toilet products are purchased on convenience, and if a box of aspirin or a bottle of milk of magnesia is required, the nearest outlet will get the business. Furthermore, no matter how large a store organization can grow, no matter how perfect their internal setup, the mass of the buying public will prefer a Squibb Aspirin, say, to an "X" product, Phillips' Milk of Magnesia to a "Y" product, in the same way that men prefer a Manhattan shirt to a cheaper grade even with a well-known private retail label.

Here is something to remember when it comes to the quantity influence against brand consciousness. For years, the 5-and-10-cent stores have had large packages of various toilet goods on their counters, competing with name brands. For more than ten years now the sales of known brands have increased and the sales of the economical larger sizes have decreased, and even in depression years. It is admitted in toilet goods marketing that the public generally considers price and quality synonymous although that may not be true. Similarly with drugs, well-established products have little to fear from the disarrangement of retail prices aggravated temporarily by price advertising. Drugs and some toiletries are usually bought because of vanity or immediate need and reducing prices in that field never has been known to stimulate the use of, say, castor oil or other medicinals. Since most products purchased are bought because of habit, need, or vanity, the question of prices is not important. After all, the per capita purchase of drug store products for the entire country was only about $21.00 in 1945, and even a 10 per cent increase [11] in prices of such products would have less effect on family purchasing power than a 1¢ sales tax.

The policy of maintaining a comparatively high retail price in the drug and cosmetic field may be followed for a long time on a profitable basis. When drugs are required to cure an illness rather high prices can be asked, and they will be paid. Since they are not ordinarily part of the daily régime such expenditures do not bulk large and no great effort would be made to cause a reduction. Where a product may become part of one's

[11] The Drug Trade Survey of the effect of fair trade contracts on prices revealed only a one per cent change for the whole country.

daily living, as in the case of vitamin capsules, then consumer pressure is brought to bear to lower prices. With cosmetics again we have the case of an item not bulking large in a family's living. Consequently, high prices can be asked for the small individual amount annually purchased. Cosmetics are also in the nature of luxury products and in that category may command a high price. Even when we experience a depression and a sharp falling off of income not much protest against price may be made. Those who can still buy because of the beauty appeal will usually be willing to pay and those who cannot afford to buy just stop purchasing and find that they manage to live just as well.

Despite the fact that such policy, from the profit point of view, may well be followed necessarily for a long time and since this is a book written to help those who are in or want to get into the business of making and marketing some one of the many pharmaceuticals or cosmetics it seems to the authors some very realistic things should be said about this business of price maintenance. We ought to be very frank and for one thing throw out the trimmings that tend to camouflage the movement as one of fair trade. It is nothing of the kind. It is, as the hearings held before both the Senate and House committees branded it, a selfish proposition. Selfish from all sides. The proponents want such legislation to secure better prices and, therefore, better profits from the goods they make and sell. For this businessmen cannot be hated. The business opponents were against the legislation because, being in a position to sell at lower prices and make the same profit, they want to sell at lower prices to attract more trade, to do more business, and to make even greater profits. No more reason to hate them than the others. The consumer wants to buy at the lowest possible price to get the most goods for his money, and again no more reason to hate him than the others. The arguments then pro and con are for selfish reasons. That being the case can the proponents of price maintenance having won out on this selfish legislation expect the others to acquiesce and do nothing further? The answer, of course, is no. To begin with, the legislation was secured by a comparatively small pressure group, the retail druggists. Even if they were joined wholeheartedly by all the manufacturers they would still be a small group. Next, the legislation could not pass through Congress on its own merits—it had to be attached as a rider to another bill. There is no reason for the opponents to have any respect for it.

The business opponents are meeting the issue by pressing the sale of their own brands or no-brand merchandise. According to some reports they are having a fair measure of success in these efforts. Manufacturers of branded advertised merchandise have been obliged to reduce their prices on some products.

The consumers have not yet become fully awake to the fair trade acts and what they may mean to them. They are, however, in process of formation into possibly the strongest organization they have yet assumed.[12] When fully aroused and in fighting form their attack will be a charge that government has legalized monopoly. A long explanation here is necessary. The space at our disposal is not enough. The reader can perhaps get the point from the following: The concept of monopoly in economics has been broadened considerably from the old concept of unified selling. The economist has also developed lately the term *imperfect competition* by contrast with the classical economist's concept of *perfect competition.* These two developments are revolutionizing economic theory and out of it is slowly developing the following ideas:

1. We do not have and probably never have had perfect competition. Consequently, the so-called "unseen hand" that guides men economically to do that which is best for them and which is also best for society is about as unrealistic as anything could be.
2. From this then develops the idea that everything is done by men in their own interest, and the one who is most able, sagacious, or strong financially secures more than others. And that when several organize together they always win out to their advantage unless other groups are formed who match them in every way.
3. From this develops the idea that organized society must step in and regulate and control economic activity to an extent that only few men in the past have visualized [13] if the consumer as such is to be protected as he should.

Price legislation leads to more imperfection in competition, and since there is monopolization of one kind or another in almost all business activity as it is, this legislation, unless wisely handled, may be the fillip that brings about the kind of governmental interferences most of us will dread. How may it be handled? Generally the advertised list prices of all drugs, medicines, and cosmetics are too high. Some evidence of this is presented in the early part of this chapter. Other evidence is to be found in the facts of price cutting itself. Nearly every time that a product is "footballed" that is a sign the listed price is too high. The manufacturer then, with assurance through this legislation that his prices will be maintained, can now lower his prices to a point that bears a close relation to cost.[14] Continued reduction will be evidence to the consumer that will probably satisfy him that business is trying to serve as well as to make profits.

[12] See Bader and Wernette, "Consumer Movements and Business," *Journal of Marketing,* July 1938.

[13] For a fuller treatment and a short bibliography see L. Bader, "The Economics of Recent Price Legislation," *Journal of Marketing,* Oct. 1938.

[14] Some evidence of a move in this direction was suggested by the Report of the New York State Pharmaceutical Association and the statement of C. I. Luckman of the Pepsodent Company, that a survey conducted for his company showed a saving to the public of $500,000 during 1937 as compared with 1935. Reported in *Advertising Age,* June 27, 1938, p. 27.

The retail druggist has, of course, his contribution to make. If he proposes to sit back and permit legislation to take the place of efficiency and good merchandising, in the long run he will find it does not pay. Marketing costs are being scrutinized and criticized more closely and severely than ever before, and unless the druggist joins in the movement to cut costs he cannot expect much consideration from the consumer when the latter is in the saddle.[15] In a democracy and in the long run the consumer, because of numbers, must win out. It will pay both manufacturer and dealer, therefore, to leave no stone unturned to reduce costs so that consumers may secure the most for their money.

[15] See part played by the consumer in passage of the 1938 Food, Drug, and Cosmetic Act and the Wheeler Lea Act. For how powerful consumers may become, see Bader and Wernette in July 1938 issue of *Journal of Marketing*. See also *Does Distribution Cost Too Much?* Twentieth Century Fund, New York, 1939.

Chapter 18

THE PROBLEM OF FINANCING

This chapter deals with the capital requirements necessary to the establishing of a business in the drug and cosmetic field. One may start with a small amount and by ploughing back profits finally own a relatively large enterprise. This field lends itself well to this. To begin with many of the drug and cosmetic products do not cost much to make. Or they can be made by a well-established "producer for the trade," and consequently no investment need be made in manufacturing. Marketing of the product is the more important part of this business and large capital may be required for this. In any event when allocating one's capital in this field provision must be made to allow enough for the marketing of the product; otherwise failure is likely to follow. But even here not much, relatively, is required. One may start marketing on a small scale, ploughing back profits or securing capital from others as demonstration is made that one has a good product and that it can be successfully marketed. Gross profits are large in this business but net profits may be disappointingly small. Careful budgeting especially of marketing expenses is necessary for success.

After the manufacturer has decided on his product and package, it becomes necessary to consider manufacturing facilities and the financial requirements to produce and to market the product successfully. This necessitates a consideration of the allocation of capital to production, and to marketing and to providing the necessary general organization for the business. Many enterprises fail apparently because of inadequate capital when the fact is they have neglected to analyze the difficulties faced by an enterprise, and have, therefore, reached for the moon. In short the business has been characterized by inefficient management.

NECESSARY MANUFACTURING FACILITIES

To the manufacturers who are embarking on the marketing of a drug store packaged product, the production problem, in most cases, is comparatively simple. There are many firms that produce under private brand names merchandise of almost every type and character. That means that it is possible, in most cases, to enter the field with a comparatively small investment or none at all in manufacturing plant and equipment. Merchandise can be purchased all made up, thus enabling the businessman who is just commencing to determine at all times precisely what his product costs, and also to know that this figure will remain almost constant over a

period of time. In the toiletry field, the practice is widespread for manufacturers to have merchandise made up for them and delivered in complete packages. This policy was further spread because of the peculiarities of the cosmetic tax that was in effect from 1932 to 1941.

Generally it is inadvisable, unless there are special technical and mechanical difficulties involved in the manufacturing of the product, or the owner does not want to reveal the process or other valuable characteristics of the product, to invest capital in manufacturing plant or other equipment. In fact one of the authors knew intimately of a business in which only a few hundred dollars were invested. The owner bought, as one illustration, aspirin tablets by the thousand and packed them in boxes, which were then fastened on cardboards and peddled in stores on a consignment basis. Once or twice a week the stores were visited, collections were made, and new cards were left to replace the old. This same procedure was followed with other items, and finally a fairly large line was worked up and sold by salesmen engaged on a commission basis, who were secured through inexpensive advertisements in *Specialty Salesman.* For a long time one individual handled all the work, using part of a loft of a factory building in the rear of other buildings. The business furnished a comfortable living for several years and was abandoned only when another opportunity arose which paid much better. The other author was intimately connected with a development that began in the rear of a drug store and finally developed into a business manufacturing most of its line, employing 350 people, and requiring an investment of $500,000 to keep operating. Then there is the extreme case of the producer of Life Savers who began also in the rear of a drug store (or in HIS kitchen) and built up a worldwide business that was sold later for a sum reputed to be over $1,000,000. More recently, we find a dentifrice that was started by a dentist, promoted and backed by one of the smaller wholesale druggists in New York City, and later sold to one of the large firms for a substantial sum. Generally, the more successful items have been one-man propositions, carried to substantial proportions, and then sold to the larger houses. A fair proportion of the most successful items in the last twenty-five years have been developed by smaller groups—until successful—and then bought out by larger companies.

The economies that can be effected by manufacturing for oneself do not begin to operate until large sales volume has been attained. Offsetting the savings that may occur from lower costs growing out of one's own manufacturing are the facts that firms doing private brand work are fully equipped for handling most manufacturing requirements; their manufacturing costs are at a minimum, because they are already engaged in large-scale operations. Usually they can supply the merchandise as cheaply as the prospective manufacturer himself could, were he to start with a complete plant

of his own, developing large-scale production as sales volume slowly increased.

An enterpriser can turn over his capital, when used for marketing only, many times more frequently than he can when engaged in both manufacturing and marketing. A safe guide for the newcomer would be to estimate the turnover of capital in the selling end, compare this with the turnover in the manufacturing end, and calculate the difference in gross profit. Generally it would hardly pay him, unless he is a very able technician, to figure on a plant of his own until his sales were at least $100,000 per annum.

It is difficult in a general discussion such as this to indicate what minimum sales must be reached before it is economical to engage in manufacturing. An overhead cost of at least 10 per cent will prevail in most manufacturing establishments; to this must be added the cost of technical supervision, plant expense, and interest on investment. The combined sum would total many thousands of dollars for even a moderate-sized plant. With some products, there are firms who to this day do not have their own plant even though sales volume may reach a million dollars a year. Very few firms in the industry, for instance, make their own rouges and lipsticks, or other cosmetics, leaving this part of the work to the trade houses. This was being done even before the tax on cosmetics went into effect in 1932.

The overhead expense and capital frozen in unnecessary assets caused by factory investment are reduced to a minimum, and are frequently eliminated entirely, when the product is purchased from a private brand manufacturer. The capital invested in fixed assets becomes negligible, and funds are left free to be employed in the more important phase of this type of business—marketing the product.

CAPITAL REQUIREMENTS FOR INVENTORIES

Even though a manufacturing plant is not built or acquired, capital requirements for a large sales volume are still substantial. Many drug products require aging. They require time tests to determine whether they will stand up under dealer and consumer storage conditions. Perfume, for instance, is aged for six months or more. Some drug products are aged for a year, and often longer. The necessary inventory requirements of many drug products absorb a part of the manufacturer's capital. Further capital is required to undertake the necessary sales promotion to secure the desired exploitation of the market. It is well to consider carefully the capital requirement of this phase of the undertaking, so as to be sure of sufficient finances to reach the desired goal. Many merchandising campaigns have fallen down and become flat failures, with success in sight, because of the lack of adequate working capital at this point. Inventory

and marketing capital requirements become very important especially when they represent a considerable proportion of the available funds.

GOVERNMENTAL REGULATIONS AFFECTING MANUFACTURING[1]

When a manufacturer plans to market his own product, there are, in addition to the various label and packing regulations mentioned in Chapter 5, sundry other restrictions that must be taken into consideration. Products that contain narcotics can be manufactured only under strict governmental supervision and regulation. Products in the toiletry field that contain denaturated alcohol, which is purchased under governmental restrictions, also can be manufactured only under the specific regulations that are issued by the Bureau of Internal Revenue. Permits for the purchase of alcohol, both the denatured type for external preparations and the pure grain for medicinals, can be secured only from the Bureau of Internal Revenue. When alcohol is used certain regulations covering the type of equipment, the amount of capital investment, the methods of manufacture, and the mixtures permissible must be observed. Furthermore, governmental regulations provide that raw materials of this kind must be kept in separate rooms, under lock and key, properly safeguarded against theft, every possibility of destruction, and subject to governmental inspection at all times.

A complete copy of the regulations and the necessary forms required may be obtained from the local division of the Commissioner of Internal Revenue, Alcohol Unit. These regulations are changed from time to time, so the latest forms should be obtained.

A prescribed form of records and reports must be used and held available for checking, and bonds must be furnished to obtain alcoholic raw materials.

Very often the existing private-brand manufacturer is in a better position to comply with all these requirements; he can deliver the completed products many months sooner and he can produce all the items wanted at considerably lower cost, even though he is making a profit.

RELATION OF SALES VOLUME TO COST OF PRODUCTION

While much can be said against doing one's own manufacturing, nevertheless entrusting a business to another plant carries with it the danger that pertinent information about a business may be given to competitors or the manufacturer himself may take advantage of the information that must be passed on to him. This, however, would probably rarely happen. The established houses could not afford to do that; they can be trusted.

[1] See also Chapter 21.

The names of these concerns may be secured from the files of drug trade magazines like *Drug Trade News, Drug and Cosmetic Industry, American Druggist,* and *American Perfumer and Essential Oil Review.*

When sales volume has reached the point where the cost of supervision and investment in facilities for complete control of a product are less than the cost of having the product manufactured elsewhere, then and then only is it advisable to set up your own plant. At that time, it will be found that the investment in equipment required to manufacture and package most drug products is comparatively low. The initial investment in machinery is not high, usually production is large, and most of the work is performed by low-priced unskilled labor.

The Federal Fair Labor Standards Act of 1938, usually called the Wages and Hours Bill, has been followed by state acts that can profoundly affect the wage situation. The wage scales have now reached the minimum hourly rate of 57½¢ per hour and possibly will go higher.

DOING ONE'S OWN MANUFACTURING

Location of Plant. The location of the plant is a problem that is important in the financial success of a product. The location of the plant should be governed by at least one if not all three of the following factors: accessibility of raw materials, proximity to labor supply, and convenience to the consuming market.

Most drug merchandise is sold delivered by the manufacturer. This is done in order to make the retail and wholesale prices uniform in all parts of the country. Therefore, if the largest potential market is found to be in a particular area, it might be well to place the plant in that area. However, the source of raw material and labor supply must be considered. Raw materials may be a long distance away. The expense of delivering them may in some cases more than offset the savings to be made in locating the plant near the consuming market. The "center of gravity" method may be used, however, to locate warehouses in which to store stock for quick delivery.

If technical labor is required, then the factory may have to be placed where such labor is readily available. Scarcity of labor will naturally make for high costs and may result in inadequate production when sales demand large output.

Purchasing of Raw Materials. Provision must be made by the manufacturer for supplies of raw material of the kind, in the quantities, and at the prices necessary for economical production. Sometimes he will be faced with a so-called "seller's market" with at times basic drug commodities cornered. At other times he may find himself in a "buyer's market." It is necessary, therefore, to make a careful study of market conditions and

to attempt to forecast what is likely to happen so that proper provision may be made for one's requirements and that materials may be purchased properly.

Raw materials and containers should be bought ordinarily for a reasonable period in advance. Since they can be purchased under contract for specific future deliveries, requirements covering a period of time can be provided for. Even containers that are specially designed can be purchased on a future delivery basis in accordance with a manufacturer's needs. In buying materials and containers in this manner, it is quite obvious that costs can be lowered because the advantages of large-scale production are secured without the investment of large capital.

By "reasonable period" we mean for a sufficient time ahead to obtain best prices on maximum quantities but a manufacturer must watch out not to hold excessive inventories. The price advantage should be sufficiently large to cover overhead costs incident to holding large quantities and losses from possible price changes. Most special packages like containers, tubes, and cartons can be purchased on contracts providing for deliveries over a maximum period of 12 months. As purchase in large quantities means lower costs, contracts for 6 or even 12 months' requirements may be advisable. However, if there is any uncertainty as to sales volume, turnover, or permanency of packaging, it is better not to make commitments for too large a quantity and too long a time. It is preferable to pay a higher price per unit on smaller purchases until one is assured of actual needs and rate of consumption.

Purchasing instead of producing one's own bulk products—drug or cosmetic—carries with it the danger of inadequate facilities for prompt deliveries, interference with deliveries because of other customers' requirements, inability to have complete control of one's product, and a possible lowering of quality unknowingly.

Production Difficulties and Effect on Capital. The fact that a product has been successfully produced in a laboratory does not necessarily mean that it can be produced economically in a factory. It may develop "bugs" either in production or durability that eventually may prove not only dangerous but even ruinous. For this reason it is advisable to be assured of the soundness of the product before large investment is made in plant for its production and widespread sale. While practical tests of the product are being made it can be manufactured in independent plants.

Cost Analysis in Relation to Profit Margins. It is obvious that usually in order to arrive at the proper selling price of merchandise it is necessary to determine carefully the production cost, the expenses of the various departments of the business, and the amount of profit that ought to be earned. For drug products, however, it is not unusual to fix prices on other

than cost factors. The market price of many drug products is determined in large part by competition and by the marketing plans as to the price bracket in which you propose to sell. It is, therefore, necessary in such cases to discover the market prices of competing products first and then to try to adjust costs to fit the prices at which such product must apparently be sold. Ordinarily firms in other fields will determine the various costs, fix a price to realize a profit, and attempt to sell goods at that figure. The fixing of prices under O.P.A. was governed by M.R.P. 393. This followed the method of using the competitor's product as a yardstick if you had no similar product of your own with which to compare. With controls eliminated the following method is the one usually employed with drug or cosmetic products: You set a retail price on your drug article fixed by competitive conditions at, say, $12.00 per dozen. Then the customary price to the retailer, to allow for his markup, becomes $8.00 per dozen. If you are going to do business through the wholesaler the minimum discount for which he will carry the product is 16⅔ per cent, though frequently he may require a larger discount. Most manufacturers figure a discount of 16⅔ per cent and often as high as 20 per cent to persuade the wholesaler to push the product. Assuming a 16⅔ per cent basis, you will get little more for your merchandise than $6.67 per dozen, regardless of what it costs. In other words, the retail selling price rather than your cost fixes the price that you are going to get.

These figures do not cover the costs of deals, free goods, and special discounts to encourage increased purchases. Deals are a form of merchandising discount or reduction in price and must be considered as such. In connection with deals or special allowances it should be noted that in interstate business you are subject to the Robinson-Patman Act, and all such allowances must be granted to all dealers in proportion to their purchases, and under the act the burden of proof is on the seller.

In setting a price of $1.00 on merchandise, we are assuming that by far the greatest number of competitive articles in the field are found in that price class. Before you set a price, therefore, you must determine what price market you are going to operate in, as it is the market that you are going after that governs the costs you can pay to manufacture and market the product. Experiences show that usually the drug product manufacturer figures one third of the net price for materials and manufacturing; one third for selling and advertising; and one third for overhead and profit. Given capable management this allocation is safe figuring. In some cases the merchandise cost may be lower than the one third figure, and, frequently, where this condition prevails the selling and advertising expenses are likely to be considerably higher. Some products can be given a retail price many times the cost of manufacture. This means a larger

percentage of the net price is available for sales promotion, thus increasing the possibility of successful marketing.

While the preceding gives the margins usually resorted to, these do not apply in every case. Medicinal products, particularly proprietaries or patents,[2] often permit a wider margin of profit and have a lower manufacturing cost than do products like sundries, toiletries, oral preparations, and products of costly raw material content. There are also some variations possible in the make-up of a package and savings in the selling methods used that result in a gross profit large enough to allow for intensive exploitation. In any case, the most important thing in all marketing and manufacturing situations is the necessity of keeping within the budget that is finally set if profits are to be realized.

ORGANIZATION FOR PROFITABLE OPERATION

There are many good products, suitable for certain purposes, the sales of which have not been successful, not because the products themselves were not good but because there had not been sufficient money placed behind them to do the sales promotional work necessary to make them successful. Advertising or dealer sales promotion alone, however, will not make a profitable business. Mere volume will not produce profit. Profit is the result of many seemingly unrelated factors, and the failure to consider all these factors—those of finance, organization, and control—has resulted in disaster to many enterprises embarking in this field, and even to some that began with the greatest possibility of success. Mention may be made here of La Lasine, a mouth wash, that was introduced to the public with apparently a complete national retail and wholesale tie-up, and a tremendous advertising campaign, yet whose sales are reputed never to have reached a figure more than 25 per cent greater than the advertising appropriation spent to introduce it. What the cause of failure was—poor product, poor packaging, inadequate sales coverage or poor advertising—we do not know. The losses in this enterprise ran high. And this is but one example of many similar plans that went wrong.

Budgeting. It should be borne in mind, at all times, that no business can be successful unless the capital invested is sufficient to perform the necessary operations. Merchandising of drug store products is so highly speculative, and investment in advertising so intangible, that banking cooperation is not always easy to obtain. His own capital invested in the enterprise is the best hope for the manufacturer. Lack of capital, as a study by the University of Colorado, shown below, discloses, is one of the chief causes of business failure in most industries. This reason is even

[2] Prior to 1901 proprietaries were trademarked under a patent law and became known as *patents.*

more important in the drug field where so much capital must be placed in speculative intangibles.

TABLE 22—FAILURES IN BUSINESS

Cause of Failure	Percentage of Total	
	1930	1929
Personal		
Lack of capital	31.6	37.2
Incompetence	26.3	31.4
Inexperience	5.3	4.9
Unwise credits	3.5	2.1
Competition	3.5	3.9
Failure of others	3.4	1.5
Neglect	.9	.9
Extravagance	.7	.5
Nonpersonal		
Specific conditions	22.4	15.6
Speculations	1.2	.3
Fraud	1.2	1.7

The report of the University of Colorado in its major cause of failure coincides with a report of Dun and Bradstreet made for the National Wholesale Druggists' Association covering the year 1943. The principal factors contributing to drug store closings were:

	Percentage
Insufficient capital at start	54.0
Poor personality	33.3
Failure to keep adequate records	29.9
Inexperience	26.4
Too high management withdrawals	27.6
Competition	36.8
Poor health, use of liquor, and mental troubles	32.2

Other causes were listed, some of which might have been included in the above. Obviously, more than one factor was named for each store that closed.

The competent individual, and that does not necessarily mean the experienced one, will have adequate capital to accomplish what he sets out to do. The prospective manufacturer can obtain competent individuals who have learned from experience and the trial-and-error method what the pitfalls of merchandising are and how to avoid most of the errors that have in recent times strewn the business highway with the wrecks of enterprises that started auspiciously.

The amount of capital invested in the business should be segregated according to a carefully drawn budget, which should determine:

1. The capital required for original designs, plates, sketches, and preliminary art work.
2. The amount of capital, if any, required for plant and equipment.
3. The capital necessary for raw material and finished inventories.
4. The capital available for advertising and selling.
5. The remaining capital available for general business overhead, accounts receivable, and prepaid expenses.

Because of the belief that large drug product profits are usually made and, because of the large margins of profit indicated in some cases, many individuals and firms embark on the marketing of drug store products with inadequate capital and this seems true more here than in most other types of business activity. For a period of time they seem to make progress and then discover suddenly that they have reached an impasse; they cannot go ahead because their working capital has been used up and the assets that still remain are frozen in bills receivable, merchandise inventories, and in stock in the hands of wholesalers still unsold.

One of the reasons that there are so many competitors in the drug field, particularly in the toiletries and other nonsecrets and proprietaries, is that the capital required to start in the business is seemingly small, since in many cases, at the start particularly, machinery and equipment are not purchased. As stated, many products have been started over the kitchen stove with merely an enamel pot and a few dollars' worth of raw materials. The fact that a fortune can be made seems to be the mirage of many who add to the thousands of products on the market. They feel that because the raw material costs so little, the package itself often being worth more than the contents, the business is just a question of making the product, and that's all.

To the inexperienced and uninitiated, to the newcomer in manufacturing these products there should be a warning: please remember that the strength of this business is also its weakness. Where other businesses require thousands of dollars for investment in bricks and mortar and machinery the drug product manufacturer must invest thousands of dollars in creation of good will. The banker does not consider the investment of thousands of dollars in advertising worth much when it comes to granting a loan. He can *see the factory,* although it may be reduced to scrap value because of obsolescence in a few months by some new discovery. The good will in the minds of the public for any particular product, built up by years of advertising, the banker cannot see, although it may last for a long time. It usually gains momentum as the advertising expenditures are increased, and loses momentum as the business becomes careless and inefficient in its advertising to the public.

Like many other businesses, drug enterprises get into trouble because of financial indigestion, that is, not being able to handle properly what business has been developed—the attempt to digest far more than is within the scope of the manufacturer's capacity, financial and otherwise.

The first and foremost mistake, as a rule, is putting too much capital in manufacturing facilities and equipment. From this follows directly excessive manufacturing overhead. That is why particular emphasis was directed to the inadvisability of starting a plant. A business should ordinarily wait until it has established itself, and has acquired sufficient volume to warrant owning a manufacturing plant. The profit that might be paid to an outside manufacturer would be less than the danger of tying up too much capital before attempting to do the more important job of marketing.

Then there is the question of excessive purchases of either raw material or containers. Buying in large quantities of some products means reduction in prices. However, time passes quickly. There are occasions when selling efforts do not prove to be as successful as expected; the end of the contract period draws nigh and manufacturers find that they are compelled to take in merchandise on previously placed contracts, at inopportune times. This results in the choking up of a business—merchandise bills become due —excessive inventories are on hand, and the movement of merchandise from retail channels is slow because capital is not available to continue with merchandise plans that were made and only partially carried out.

Problems in Allocating Capital to Fit Marketing Requirements. The drug manufacturer starts his enterprise full of hope and confident of his ability to convince the public to buy his wares. He has selected an attractive product, has packed it alluringly, and has embarked on his merchandising and marketing campaign. He proceeds to call upon the wholesaler, and suddenly finds the wholesaler will not buy merchandise from him—that the wholesaler will take his goods only on consignment or at best after considerable selling effort on a guaranteed-sales basis. This means that he ties up capital in an unexpected quarter. Until the merchandise has been sold by the wholesaler, the latter will not pay for the goods. The manufacturer invested not only in merchandise, but also in sales, advertising, and general overhead expenses; and he receives no cash return from his wholesaler. However, he is still confident. He proceeds to make the necessary sales calls on the retailers, begins his advertising campaign, and expects the merchandise to move. He is reasonably successful, but in some cases the dealer has not sold the goods, and, inasmuch as the wholesaler is demanding payment, the dealer, especially if he obtained merchandise on credit, returns goods to the wholesaler. The wholesaler then finds it unnecessary to buy additional merchandise; he merely reships what was previously sold or consigned to him.

Sometimes, the advertising campaign is not effective and an abnormal amount of goods remains on the shelves of the wholesalers and dealers and the selling job must be done a second time. Advertising campaigns are expensive. Merchandise and sales promotion may attempt to cover too much territory and so prove costly. Inefficient salesmen may be employed. They receive salary and expenses for two, three, or four weeks, then are found inefficient, and are let go. All this accumulated expense cuts into capital and cuts down the possibility of adequate turnover. Therefore, it is absolutely essential for the manufacturer to determine in advance just how far he can go with his resources.

Suggestions for Controlling Capital Allocations. The following from a recent report of the Bureau of Census can be used in allocating capital: "The total population of 95 metropolitan districts in the United States is 54,589,972 and the total area is 3,631,300 square miles. Of the total population 69.3 percent is included in central cities and 30.7 percent is included in the adjacent territory or civil divisions outside of the limits of these central cities."

One could easily pick out from these his marketing territories. The particular market that is close to one's sources of supplies or one's factory would be a good metropolitan unit to be used for trial purposes. Here one might discover the turnover of his capital in a metropolitan market. Study should then be made of the other territories one plans to operate in to be sure that the proving ground is sufficiently similar to indicate similar results.

A manufacturer is then in a position to check his budget and know how to meet the requirements of his business.

It is much better to have one's funds in liquid form, and thus be assured of financial ability to carry through the job undertaken, than to make an attempt to encompass a greater area than should be normally undertaken within the limits of not only one's capital, but one's ability to keep the operations under control.

It is necessary to consider the average rate of turnover of competitors and others who are operating in the same field, to determine just what should be a reasonable turnover of one's investment. When this is known, it is then a simple matter to operate with safety and not to find one's self at the point where continued operation becomes impossible.

Nearly every businessman has had experiences which have disclosed many instances where firms have gone forward under excessive or tremendous expenditures with unbounded faith in the efficiency of the advertising plans, and found themselves tied up, impossible to move further because of the lack of sufficient funds to continue. This situation develops just as

frequently in large undertakings as in small, as lack of capital is merely one of degree.

The question is then asked, "What are the capital requirements of the manufacturer, who does business with wholesalers, with wholesalers and retailers and with retailers?" The question can only be answered fully after the entire method of selling has been settled. The question of pay-on-reorder consignments and guaranteed sales has an important bearing on the question.

With the latter included capital requirements would be greater. The following formula may be safely followed. For every $100 worth of open account business per month done direct with retailers $300 to $350 worth of working capital is required to handle accounts receivable and inventory. Where business is done through wholesalers only $150 to $200 will be needed per $100 of sales. Where consignment sales, pay-on-reorder sales, or guaranteed sales are part of the selling plan, then an additional safety margin of 50 to 100 per cent would be required. Therefore in the event a volume of $2000 per month were provided for, $6000 to $7000 would be tied up in accounts receivable on a direct basis, and $4000 when doing business through jobbers. This does not include any allowance for inventory. Capital then usually requires at least a 90-day investment. Therefore, on a 50 per cent gross cost with a $2000 monthly sale, at least $3000 of capital would be required for inventory. To this must be added selling, advertising, and other promotional expenses. To do a business of $2000 a month direct to retailer a capital of $8000 to $9000 would be required. The same business done through wholesalers would require $5000 to $6000. To retailers direct one could expect a capital turnover of 3 to 4 times and to wholesalers one of 5 to 6 times annually.

REACHING THE PROFIT STAGE

The question "How long will it take before business becomes profitable?" is just as problematical in this field as it is in any other. This can be determined only in a particular case after the attempt is made. But all of the vicissitudes common to every business are found in the drug field. There is an additional handicap—that of the uncertainty of capital requirements growing out of the marketing conditions of this industry, which are not easily analyzed in time to cope with them.

There have been firms that because of unusual merchandising and marketing methods, have been able to reach a profitable basis within a period of two years, even one year. Hennafoam, after having had many ups and downs over a period of years, by careful advertising and low expense ratio, reached a profitable mark in less than 2 years. Miracle products like Out-

door Girl have done it in less; others take longer. Vince, another unusually successful drug product, was on a profitable basis within 2 years. The product was purely a professional one and was advertised through the dental profession only. The firm's volume at the end of 5 years was nearly $1,000,000. Still the product had the advantage of being manufactured and distributed by a New York wholesaler who was the owner of the business. This was probably an exceptional case, but other products have been introduced to a market in a not much longer period of time.

Polymol, a hair preparation, introduced by a wholesale barber supply house, developed a large volume in less than a decade. This product, however, had the benefit of an existing staff of salesmen, contacting many thousands of outlets weekly, but without much original selling investment, as this cost was absorbed by the wholesaler's large line.

Drug products have been known to cost as much as 100 per cent of sales for advertising alone in the first year. Experience suggests that it should take not more than three years for any desirable product to reach a profitable sales volume. By the time the three-year period has elapsed, at least a portion of the market should be operating on a profitable basis, so that its profit may be used to continue exploitation into other and wider fields. Sometimes, specialty and novelty products, especially men's toiletries, become profitable immediately. This is particularly true of products introduced through the 5-and-10-cent stores, where products frequently obtain marvelous sales volume and profitable status in a very short time. Those so-called "hot" numbers, however, are not overfrequent.

The general opinion in the field is that without any exceptional or unusual sales or advertising outlay, a product should be profitable between the fourth and fifth years. From that period on, the ratio and margin of profit should improve and the advertising percentage cost should have reached its lowest level. For this reason, if it is going to take that long to arrive at a profit, sufficient capital must be available to carry through the introductory and solidifying periods. If this is not done, then the business will reach the point, as so many do, where although an auspicious beginning had been made, further progress is impossible, owing to lack of funds. This is particularly true of single products. Products added to existing groups or organizations naturally have the advantages of lower general operating overhead, as selling and other distribution costs are lowered. That is why so many existing organizations purchase branded items of comparatively little volume, and add them to their lines. They can be operated at greater profits in already existing organiztions than independently.

From time to time as the marketing and sales problems are progressing, checkup should be made. These checkups are particularly necessary where

there is any likelihood of limitation of capital, although all businesses can well afford to check up from time to time. After the standard operating and promotional budgets have been established, it is well to ascertain from time to time whether predetermined expense ratios are being adhered to. Some costs may be found to be less than estimated, other costs may increase beyond original ideas. When these checkups are made regularly, frequently they provide adequate check on results and will reduce to a minimum the possibility of going astray into unprofitable territorial or merchandising plans.

Mention has been made of the various supplies, equipment, and materials that may be obtained. The sources of this material are varied but easy of access. When looking for sources of supply for containers, caps, and other accessories refer to

Modern Packaging
Packaging Catalog
Drug and Cosmetic Industry
Drug Trade News Fact Book
American Perfumer

For raw materials, supplies and equipment reference should be made to

Drug Trade News
Drug and Cosmetic Industry
American Perfumer
Drug and Cosmetic Review

The pages of these publications contain full information on the sources of supply of all necessary products; or the publishers will be glad to give detailed information on request. The usual printing and lithography establishments will be able to assist on labels, cartons, and package inserts.

Formulas and methods of manufacturing are given in the following books:

The Chemistry and Manufacture of Cosmetics, Maison G. deNavarre, D. Van Nostrand Co., New York, 1941.

Perfumes, Cosmetics and Soaps, William A. Poucher, 3 volumes, D. Van Nostrand Co., New York, 1941, 1942.

Modern Cosmetology, Ralph G. Harry, Leonard Hill Ltd., London, England, 1944.

Cosmetic Dermatology, Herman Goodman, McGraw-Hill Book Co., New York, 1936.

Drug and Chemical Specialties, E. J. Belanger, Chemical Publishing Co., Inc., Brooklyn, N. Y., 1941.

Chapter 19

THE EXPORT MARKET

We do not subscribe to the old saying, "The grass looks greener in the other fellow's field." But our own experiences and the records show that there is a large market for drugs and toiletries in countries other than our own. In fact nearly two billion persons live outside these United States and are potential buyers of drugs and cosmetics. During the war these people turned more and more to us. If our goods and prices are right much of the new business will stay with us. This chapter tells you where best to look for foreign business and the conditions you will have to meet to secure the business. Except for a foreign language and somewhat different customs this type of business presents very much the same problems as that of doing business at home. We would encourage producers in this field to study the market possibilities in foreign countries for their products, and then to go after it as intelligently as they do in the United States.

Generally speaking, most American firms, if they consider at all the possibilities of the export market, do not do so until they are well on the road to success in the national or local markets of the United States. While this policy usually works out best, because of financial and management problems too difficult of solution early in a concern's progress, still there are many ways in which export markets can be developed without presenting insuperable problems or hindering the development of one's American market. It is well, therefore, to view foreign markets to determine whether they have possibilities and whether such possibilities may be developed simultaneously with exploitation in American fields, especially as they take longer to develop than domestic markets.

GENERAL CLASSIFICATION OF MARKETS

The world markets generally are divided into five groups, as follows:

English speaking
Spanish speaking
French speaking
Portuguese speaking
German speaking

In addition to these there are a few important places, like the Netherland Indies, where Dutch is the principal language, and, of course, we have the individual continental countries of Europe each with a language of its own.

The English-speaking markets embrace the dependencies and associates of Great Britain, including those large markets for American products, Canada, Australia, New Zealand, and South Africa. In addition, English is adequate for most of the Far East. The vast majority of the Spanish markets are located in Spain and Central and South America; the Portuguese in Portugal and Brazil. The French and German markets generally are concentrated in Central Europe and the Near East. Some of these markets were closed to us because of war and financial conditions. Some in Central Europe and the Near East may be closed for some time longer, but gradually as peace is established they may open up fairly well to our exports.

RELATIVE IMPORTANCE OF MARKETS

The English-speaking markets would appear to be the easiest in which American products could obtain a foothold, because of the similarity of language, similarity of package style, and the facility of understanding the problems. Even though we do much business with them, they are a much more difficult group to break into than either the Spanish or the Portuguese. This is because shipments to all British dependencies are subject to import license requirements or availability of sterling exchange, which is closely controlled by Britain. A few British markets like South Africa and Canada are still open, but the Latin markets at this time give a much better opportunity of making progress in developing an export business.

In the Spanish groups, and incidentally Portuguese, where Brazil is the largest individual market, we have a situation that is not so difficult to meet as the English-speaking. Most products can be sold in these markets without much change, if any, in the package. Apart from the tariff, we do not face in these countries other trade barriers such as those arising from currency manipulation that favors home manufacturers. There are, of course, other problems to combat, such as the use of another language and conformity to certain well-understood customs, but they are not insurmountable.

SIZE OF THE EXPORT MARKET

By 1938 the total world medicinal exports amounted to $123,700,115, of which the United States contributed 15.6 per cent or $19,269,295. Our exports were shipped literally all over the world as may be seen from Table 23. Our exports in 1914 were only $6,721,978. We have, therefore, had a steady growth and this slow but steady growth might have been expected to continue. The war beginning in 1939 had an unexpected effect on our

export sales. As may be seen from Chart "A" our medicinal exports increased rapidly, reaching in 1944 the huge total of about $106,000,000. Of this amount $43,000,000 represented lend-lease, mostly to the United Kingdom, the Soviet Union, China, and certain British Empire dominions. Some of the lend-lease market ought to be retained. With Germany and Japan eliminated as exporters and the German cartel connections broken

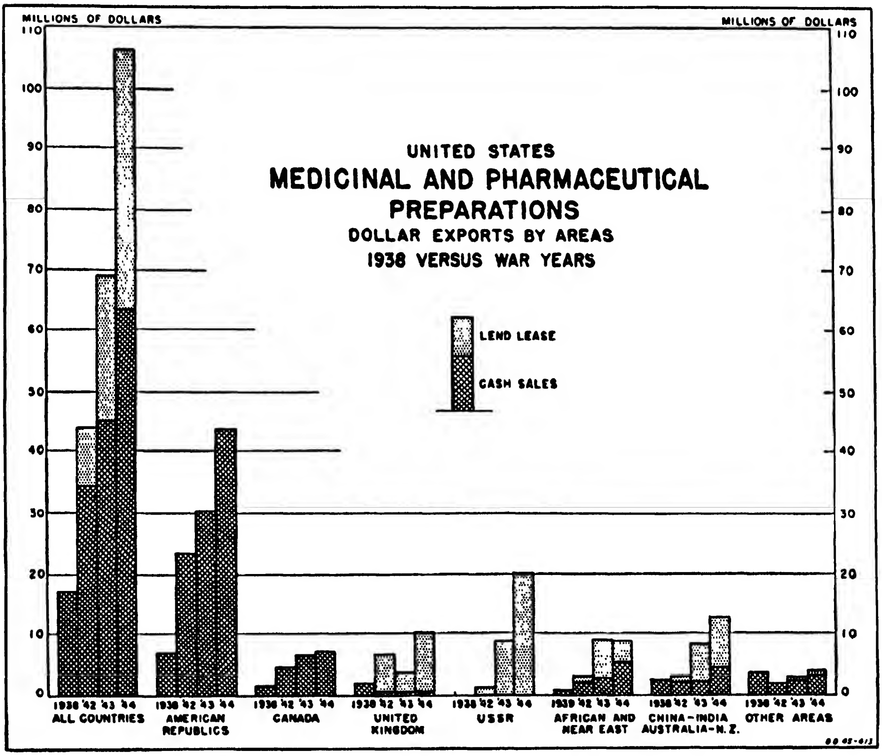


CHART A. Source: U. S. Department of Commerce.

with a few of our leading American firms, that kept them out of the Latin American market, for some years to come our export market might settle down to $80,000,000 or four times what it was in 1938. Chart "B" shows what has been done in the Latin American markets and indicates some of the future possibilities.

The export market for toiletries has never been as big as that for medicinals. Prior to 1944, when our toiletry sales reached almost $19,000,000, one of our best years was 1925. The exports by geographical divisions

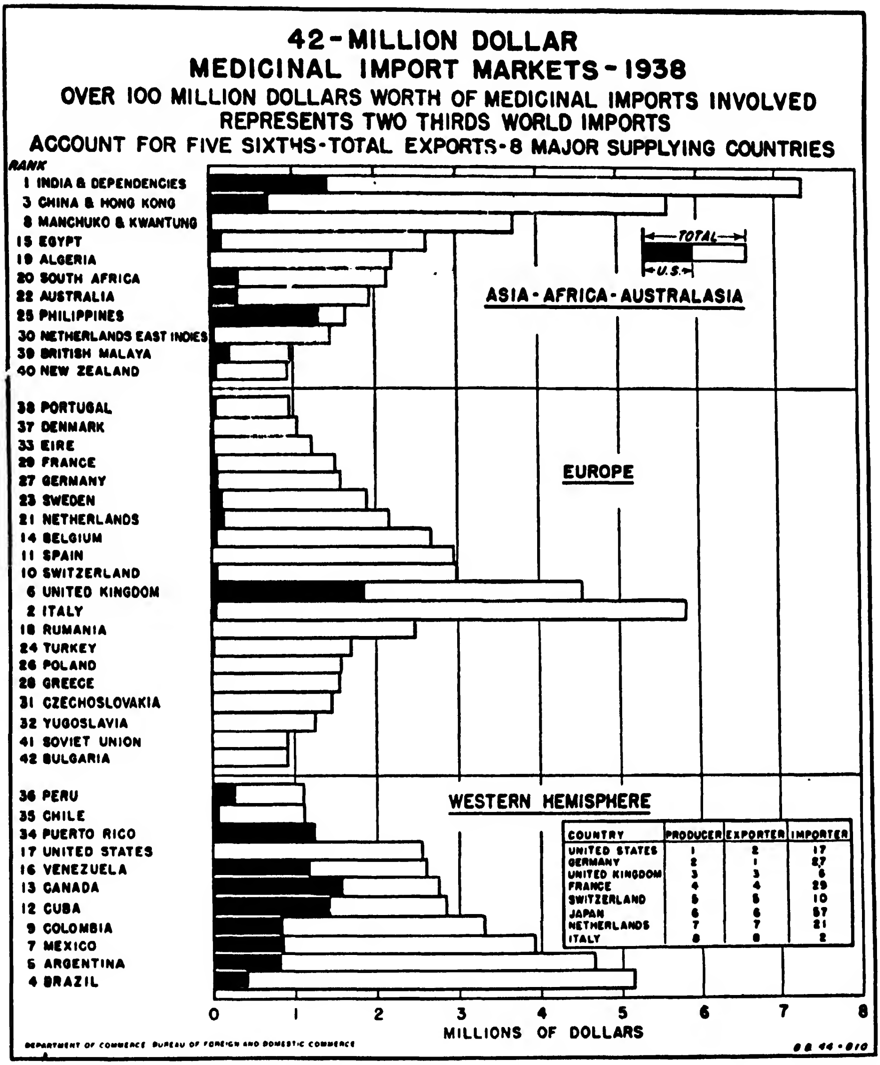


CHART B

for that year are shown in Table 24. Even so we have also had a steady and substantial growth from the $3,750,000 of 1912–1913.

The destination of toiletries is, however, a little different from that of the prepared medicines. North and South American markets take only one third as against one half of the prepared medicines exported. Europe is the best customer. Great Britain particularly and, in total, English-

speaking countries are much better markets than Spanish-speaking. In fact before World War II the eight best markets for American toiletries were the United Kingdom, Canada, British India, Philippine Islands, China, Australia, Hawaii and Porto Rico. The eight best markets for prepared medicines were the United Kingdom, Cuba, Mexico, Colombia, Canada, British India, Argentina, and Porto Rico. These markets are an indication of what can be done in other places. In fact World War II changed the

TABLE 24. EXPORT OF TOILETRIES BY MAJOR GEOGRAPHICAL DIVISIONS*

Divisions	1923	1924	1925
Canada and adjacent territory	743,000	749,000	813,000
Mexico	201,000	184,000	116,000
Central America	393,000	423,000	469,000
West Indies	1,129,000	994,000	1,009,000
South America	1,118,000	1,139,000	1,112,000
Western and Northern Europe	2,823,000	3,576,000	4,043,000
Southern and Eastern Europe	31,000	119,000	257,000
Western Asia	11,000	20,000	24,000
Eastern Asia	1,416,000	1,331,000	1,630,000
Malaysia and Philippine Islands	850,000	1,005,000	1,160,000
Oceania and Australia	851,000	900,000	771,000
Africa	335,000	449,000	442,000
Others	838,000	908,000	1,152,000
Total	10,740,000	11,797,000	12,944,000

* *Markets for American Toilet Preparations*, U. S. Department of Commerce, p. 3.

destination of our export toiletries materially, as may be seen from Chart "C."[1] We were forced to get business from other markets. They may now remain open to us. Securing proportionate results in other markets would mean a greatly increased sale of all such products in foreign trade. Even now our exports are of a value more than 6 per cent of our production so that any worth-while increase in export would mean a substantial addition to domestic output. Since the European suppliers—German and French—are not making shipments—or only in small quantities—to Latin America, the twenty-two countries of this large area afford the most susceptible field at the present time. However, the Latin American markets, while they will ultimately favor French perfumes, will still demand American toiletries.

It has been suggested that our toiletry manufacturers have not worked the Spanish and Portuguese countries as carefully or as persistently as have the manufacturers of prepared medicines. There would seem to be a large market to the south of us for medicines as well as toiletries and other chemical products. This is suggested by the following facts: European countries, Germany particularly, before World War II, were developing

[1] From *Foreign Commerce Weekly*, Dec. 14, 1946.

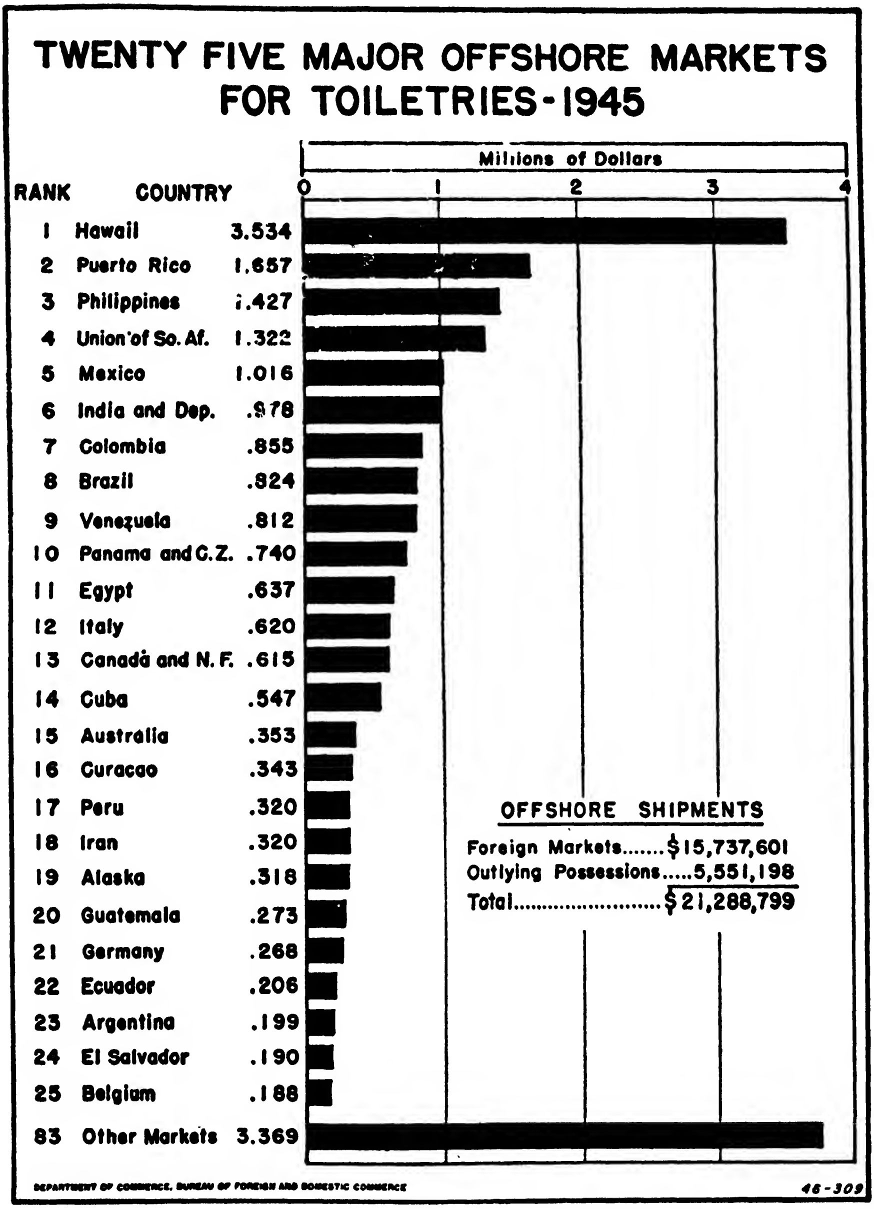

TWENTY FIVE MAJOR OFFSHORE MARKETS FOR TOILETRIES-1945
Millions of Dollars
0 1 2 3 4
RANK COUNTRY
1 Hawaii 3.534
2 Puerto Rico 1.657
3 Philippines 1.427
4 Union of So. Af. 1.322
5 Mexico 1.016
6 India and Dep. .978
7 Colombia .855
8 Brazil .824
9 Venezuela .812
10 Panama and C.Z. .740
11 Egypt .637
12 Italy .620
13 Canada and N. F. .615
14 Cuba .547
15 Australia .353
16 Curacao .343
17 Peru .320
18 Iran .320
19 Alaska .318
20 Guatemala .273
21 Germany .268
22 Ecuador .206
23 Argentina .199
24 El Salvador .190
25 Belgium .188
83 Other Markets 3.369
OFFSHORE SHIPMENTS
Foreign Markets.......$15,737,601
Outlying Possessions.....5,551,198
Total.........................$21,288,799
DEPARTMENT OF COMMERCE, BUREAU OF FOREIGN AND DOMESTIC COMMERCE
46-309

CHART C

their chemical industries as rapidly as they could to care for the business of their nationals and colonies. Germany, always a large exporter of medicines and toiletries, confined somewhat before 1939 because of boycotts and lack of colonies, looked to Central Europe, South America and Asia for business. There has also been some loss of our foreign business in these products, in English-speaking countries; the loss, however, is more apparent than real. This is because American firms have established factories in Canada and the United Kingdom not only to secure business in those countries going to local manufacturers but to participate on a more even footing in some of the lucrative business of the British Empire. For a time in 1942 and 1943, licenses for toilet goods exports were hard to get but now that export license restrictions on most products no longer exist, the markets are open and particularly desirable. The problem for the exporter of cosmetics is the import restrictions which apply against cosmetics as a luxury—although not so marked against drugs.

If you are a manufacturer with a well-established and efficiently operated factory and if you have the necessary financial resources and executive personnel, you will find it little if any more difficult to open and operate a plant in Canada and Britain than here. On the other hand Latin America has a population nearly as large as that of the United States and in addition to bountiful supplies of raw materials is beginning to expand manufacturing, thus becoming better able to buy and to raise its plane of living. In addition there is now a fine feeling between our southern neighbors and us and as markets they are less competitive than before 1940 when they bought heavily from German and French manufacturers. One is tempted to paraphrase Greeley and say, "Look to the south, manufacturers." The following paragraphs are offered as suggestive of factors to watch out for in connection with your drive for this business.

Although we are emphasizing the Latin American Market, Table 23 and Table 25 [2] give the export picture on drugs and toiletries for the whole world. Opportunities are present almost everywhere. Particularly the Near East, India and China, as and when restrictive conditions are removed or eliminated, are big opportunities likely to open up for the alert and capable producers of our products.

LOCAL CONDITIONS AND PREJUDICES

In the Spanish- and Portuguese-speaking markets, American products have a ready acceptance. The public has learned that the merchandise is of high quality. They are prone to want American goods, and the way is continually being paved for the use of American merchandise by the large

[2] This table was taken from "World Knows and Wants U. S. Toilet Preparations" by T. W. Delahanty, *Foreign Commerce Weekly*, Dec. 14, 1946.

number of American movies that is found in the cinema houses in these countries.

In a number of the Spanish- and Portuguese-speaking countries, there are special tariff regulations with regard to American products, and these conditions place American goods in a rather favorable status. This has been made more favorable because of the reciprocal trade treaties that have been negotiated. Furthermore, trade facilities through Central and South America are adequate for good coverage of the markets. Transportation is fairly well developed, banking facilities are usually ample, well-manned trade centers exist, with the result that these markets represent logical and easy ones for the sale of American drug and cosmetic merchandise.

Drug products in a number of countries must be registered with the boards of health. Formulas, qualitative but not necessarily quantitative, must be disclosed, and in some countries they must actually be printed on the labels. However, these are not especially difficult handicaps, particularly since our new Food, Drug and Cosmetic Act also requires formulas to be printed on labels for domestic sale, and once they are known and conformed to, the possibility of marketing American products in this field becomes increasingly easy. A more formidable difficulty is the registration fee asked in many countries. These fees run into quite large sums in some cases and add materially to the costs of selling in such places.

EXPORT SALES POLICY

In attempting to develop an export policy, the most important factor to be remembered is that the markets, the conditions, and the circumstances surrounding the purchases of merchants, as well as that of the ultimate consumer, are radically different from domestic conditions. This means, therefore, that an export policy must be flexible and the exporter must prepare to change his marketing policies to meet the different conditions. No one policy can be set up as, for example, selling to wholesalers only and expect that that will care for all situations the exporter will meet. We shall present six ways of breaking into foreign markets, all of which may be necessary in a widespread campaign.

HABITS OF DIFFERENT MARKETS

Domestically, the question of infinite details in the handling of orders is found unimportant. In the export field, however, some of the slightest changes from specific instructions become magnified, either by the customer or by those peculiar circumstances surrounding the operations of either the customs department of the country, the habits of the people, or even the habits of the merchants themselves.

It is also very important in formulating an export sales policy to divorce from one's mind entirely the various factors and methods used in developing markets for products in the United States. As a matter of fact, different export sales policies are required as conditions indicate for each market, because what will work in one country may not work in another. The result is that any hard and fast rule or attempt to confine one's efforts too rigidly to a set plan is liable to result in disappointment and loss rather than the hoped-for increase in sales and profits.

METHODS OF SELLING

In deciding upon the way to handle an export department, we have mentioned that there are six different ways to sell merchandise. But the first thing to settle as a policy of the export department is to have the understanding that your agent, representative, or distributor in the field, if he has been selected properly, can and does very often know exactly what is needed to merchandise your line. Therefore, when he submits suggestions, plans, and ideas, he should be given even more than the usual consideration extended to a domestic salesman.

The more desirable, and usually the most effective methods of marketing a product are:

By Means of the Merchant Distributor. If you are successful in obtaining a representative in any foreign country who combines the functions of an importer with those of a sales representative or jobber, you have usually obtained the ideal representative. In that case your problems are reduced to a minimum in many respects. In the first place, such a distributor, as a general rule, is not only thoroughly familiar with the market but he has in the field capable representatives calling on merchants in various communities. He should also be completely familiar with the best and most economical methods of advertising in his market to obtain maximum results. Such a distributor enables you to concentrate all your energies in a particular country on one source. Your expenses are thereby kept down, and you are assured of adequate stock on hand, and, what is most important, of good merchandising coverage. The one great danger of the distributor-importer is that he may be handling too many lines so that your line or your item may be neglected in his trade setup. The best way to avoid the dangers of that situation is, when making the representation agreement, to indicate therein the specific minimum quota for the country over a period of time, and to make the continuance of the agency subject to the maintenance of the agreed-upon volume. Such quota fixing is discussed below.

A restriction can sometimes be made to the effect that a competing line should not be handled by a distributor, and in a good many places that re-

striction will, of itself, assure the manufacturer of 100 per cent cooperation and activity for his merchandise.

A Manufacturer's Representative. In practically all countries there are individuals interested in selling merchandise who, over a period of time, have built up a speaking acquaintance with the merchants of their respective countries. These manufacturer's representatives are sales agents, as they are frequently designated, and are usually natives of the country in which they operate. They travel and solicit orders, taking care of the details necessary with regard to collections, assuring prompt payments, careful handling of drafts, and other work necessary to the successful sale of goods in a foreign market. In operating through a manufacturer's representative—who may be compared to the local salesman, just as the distributor may be compared to the local wholesaler—great care must be taken to select the right type.

Manufacturer's representatives are usually paid on a commission basis and arrangements are generally made that upon payment of the drafts the export representative is paid directly by the bank out of the funds collected.

Traveling Representatives. There are many firms that operate their own export department in the same way as they do their home territories by sending their own field men into the markets to solicit orders. These men generally are Americans who have had considerable contact and experience in the foreign markets and are fully conversant with the outlets and the methods of operation, and can give the manufacturer first-hand information and possibly exercise better control of his foreign markets than some other representatives might. For the moderate size manufacturer operations under this method may be too expensive and, therefore, of course, inadvisable. However, sometimes several manufacturers of noncompeting lines get together and subsidize a salesman. When this is done, expense is reduced and the same satisfactory degree of control is maintained. One disadvantage of this arrangement is that handling of advertising is rather difficult and generally it will be found that some local distributor or distributors are necessary for the correct handling of the market.

Export Representatives. Export representatives can be handled in many ways. If you do not set up your own export department a good way is to sell to the export merchants who actually maintain warehouses, do their own buying, have their own representatives in the field, and pay for the goods in United States currency at the seaport. Of late years the number of these firms has diminished rapidly as export merchandising has become more difficult. In the years between 1914 and 1932, export merchants did a considerable part of the export volume that emanated from the United States. With the improvement in exchange and economic conditions in many countries and with the larger interest in American products in world

markets, there has been a considerable renaissance in this method of operation.

When the proper export merchant is selected—one who has the necessary and desirable contacts in the field—a very satisfactory volume can be obtained from that source. Of course, there is little or no control by the producer over the distribution of merchandise, and—what is most important—great care must be taken to see to it that the goods actually get into the countries for which they are intended and are not diverted to domestic markets to be sold perhaps at cut prices.

United States Buying Agents. Very frequently large merchants in overseas markets maintain resident buyers or buying agents here. This condition prevails mostly in the cases of other than English-speaking countries, although in South Africa and Australia there are many firms that maintain buying agents as indicated above.

These United States buying agents are selected in the same manner as are domestic resident buyers. It is their duty to investigate the markets and obtain for their clients the best merchandise available that is suitable for their respective countries. When working with either export merchants or United States buying agents, it is always possible to become more thoroughly acquainted and posted on the conditions in the various countries. In this way, advertising cooperation and tie-ups can be most adequately developed at a minimum of trouble.

American Export Agents. There are many firms engaged in the business of exporting who do not buy merchandise for their own account but will accept samples from the manufacturer, distribute them to their respective representatives in various parts of the world, and solicit orders directly. In some cases these firms employ travelers. In other cases they merely operate through district representatives. The orders will be received and turned over to the manufacturer's export department through these export agents, who really act as general selling agents in a manner similar to a sales agency service operating in the United States. While this is a very economical method of working export markets, the disadvantage of it lies in the fact that most firms of this character have many lines and are not in a position to give careful and thorough attention to any one particular line unless it sells easily, is in demand, and takes a very commanding position in the agent's total business.

It is very important to determine carefully one's sales policy and to weigh carefully the particular methods that are best employed in any special country. Very frequently the geographical nature of a country is such that one representative or one distributor cannot cover the country properly. Therefore, it is best to determine how many or what kinds of distributors will be needed.

Some firms find it simpler to contact the offices of the exporters who are combination managers for many lines. There are many in centers like New York, San Francisco, New Orleans, and Los Angeles. These firms are direct factory representatives, and have offices or agents in various parts of the world.

Very frequently American manufacturers who have export representatives are only too happy to recommend their representatives to others in noncompeting lines, because it is rare indeed for any export representative to handle only one line. It is, therefore, possible to be quite selective in appointing one's agent.

PRICE AND ADVERTISING ALLOWANCE

Much of export merchandising is based on the theory that the prices should be as low as, or probably lower than, domestic prices. In handling export business we also are faced with the problem of differences in currency. For this reason, in stating a price we must remember that it is not so much what the product sells for here in the States as it is what the landed cost will be in the foreign market itself that is going to determine the salability of the product. A country with a depreciated currency must pay out more for imports than would otherwise be the case and this may be a drawback to sales unless the exporter can provide for it in the price. Currencies may be depreciated to aid a country to export, but this condition may make it more difficult for the importer to bring in goods from foreign countries. In many foreign markets, because incomes are low, prices must be low if sales are to be made, or the product must be packaged for small unit sales.

The advertising question is also an involved one. Very often American firms will insist upon doing their own advertising in foreign markets and not allow the foreign agency to advertise for them in the way the market requires. In many cases the agent could do a better job and he could be compensated by an allowance to be deducted from the sale price. To do the advertising oneself is all right if one is equipped to do so, that is if one has a complete knowledge of conditions in a particular country and so can write the proper kind of copy and place it in the right media. There are some American advertising agencies either with a foreign department or in contact with a foreign agency and they could well handle advertising according to the exporter's policies. Where these conditions do not exist, it might be the better policy to make an arrangement with your foreign agent to handle the advertising in his market for you. This may be covered by an advertising allowance to be deducted from the price of actual purchases or to be paid by draft on presentation of evidence of the advertising. To do otherwise where specific knowledge is incomplete may be costly.

Where one is represented by a merchant making outright purchases, an advertising allowance deducted from the price may lead to lower customs assessments, if duties are based on invoice value rather than on net weight of shipment. This may place the merchant representative in a better position to sell goods because of a price advantage he will then possess as against those firms that handle their own advertising and ship to such markets on a full-price basis. This is especially true in those countries where there is a dumping clause, such as is in existence in the British Dominions. A dumping clause is a specification by the importing country prohibiting merchandise from being sold at prices lower than those prevailing in the country of export.

Control of advertising in the respective countries can be maintained by setting up a budget for advertising, against which samples, general display, and other advertising material are charged. The budget, however, must be drawn to take care of any unusual situations that may exist in a foreign market.

The method of allocating the advertising appropriation, and the advertising itself, is dependent entirely upon individual preference as well as the conditions peculiar to each market. Advertising is usually done through agencies that specialize in export advertising which supply translation service, and that are generally familiar with the customs and details of each market.

Considerable assistance can also be obtained from the publishers' representatives of foreign papers and magazines. During the last ten years, many foreign papers have taken to using American publication representatives for that work, and they are giving considerable assistance in guiding manufacturers correctly.

SALES QUOTAS

In attempting to fix sales quotas for a market, although the procedure may be similar to that in domestic markets, care must be taken to consider not so much the area of the market and its population as its per capita purchasing power. Many foreign markets have large populations whose purchasing power is very low, and it would be foolhardy to attempt to gauge the potentialities of such a market by possible American standards, using population as a base. Some of the Latin American markets before 1939 imported pharmaceuticals and toiletries in a quantity that averaged from 4 cents to 20 cents per capita. But sales promotion could, probably, increase that materially. Our own per capita sales probably exceed $20.00, at the least 100 times more than Latin America per capita sales.

ADVERTISING CAMPAIGNS

Some firms, in attempting to sell their products in foreign markets, jump into the field with advertising campaigns on suggestions received from the local distributor. From experience it has been learned that if the advertising is left to the distributor, and if his retention of the agency is dependent entirely upon his sales volume, he will in most cases make the necessary effort to maintain his position in the market and to give adequate advertising far beyond the allowance that he may obtain from the manufacturer for so doing.

The method of advertising, of course, depends entirely upon the method of merchandising employed in the respective countries. Where the distributor method is used, and where the merchandise is sold through one merchant, the best plan as pointed out above is to allow the merchant a sufficient amount for advertising purposes to be deducted from the purchase price, thus reducing his landed costs, and then follow closely to see to it that he does the necessary advertising.

THE PROBLEM OF EXCHANGE

Involved in the question of price of merchandise is the exchange rate of a country's currency. Exchange fluctuates from time to time, and in a number of Spanish-speaking countries the currency is usually considerably below par of exchange [3] with the United States. Some firms ignore the exchange entirely, expecting to be paid in American funds at the current rate. Other firms make allowances for discrepancies in rate of exchange, and give the dealers some allowance to offset their high local cost or the advantage of other export countries whose currency may be depreciated. In view of the fact that export sales generally represent extra business, and also that most firms should not charge the same domestic overhead against the export department, export prices, with all the allowances made, can be set so that the dealer will have the opportunity of obtaining merchandise at a reasonable figure when American exchange is near par, and thus compete with similar products from other foreign countries.

There now follows a comparison, based on American and foreign prices of a popular product, showing how, although the different allowances are designated, the net result for the manufacturer is the same:

[3] By *par of exchange* is meant the number of times one country's currency will go into that of another when both are on the same standard, gold for example. Before World War II the United States dollar would go into the British sterling 4.86 times. That is the pound contained 4.86 times the amount of gold in the United States dollar.

	American		Foreign
Selling price per gross	$24.00		$24.00
Wholesale discount 15% to 20%	3.60		3.60
	$20.40		$20.40
Free goods on deals (approx. 16⅔%)	3.80		none
	$16.60		$20.40
Exchange allowance—average 12½%			2.55
	16.60		17.85
Selling expense—15%	2.49	10%	1.78
	14.11		16.07
Shipping expense—domestic 5%	.90		.80
Foreign is dols F.A.S. N. Y. but packing requires special handling	$13.21		$15.27

The above figures do not take into consideration the question of advertising expenditures. In the one case—the domestic market—the advertising money might be spent directly. In the other case, the advertising money will be spent by the dealer and taken off his invoice. However, as will be noted from the above, the net result for this manufacturer, as far as the net amount received for merchandise is concerned, was strikingly in favor of the export department.

The manufacturer whose figures are quoted above made his exchange allowances and charged them not against any particular market but against his entire export department, figuring that those countries where an exchange allowance did not have to be paid would help pay for those countries where an exchange allowance had to be made. Exchange allowances in this case were the difference between the local exchange and par, up to 20 per cent of the amount of the invoice. In the beginning this difference was considerable, but it enabled the manufacturer to obtain a foothold in such markets when business was dormant for others, and as exchanges moved toward par because of the devaluation of the dollar, he obtained the benefits of a rising scale of prices. Before World War II, the question of exchange was important. During the war, most foreign currencies were pegged and all sales were made based on American dollars. Since most Latin American countries have large dollar exchange available, it is evident that the question of exchange will not be troublesome in the immediate postwar period.

CREDIT AND COLLECTIONS

Most firms exporting are faced with a problem in the extension of credit and the making of collections on their accounts, especially so in the cases

where there are many restrictions to the handling and receiving of funds from a country.

In foreign countries and particularly in the Spanish-speaking countries merchandise is primarily classified either as a luxury or a necessity. Because of this it is not always possible to secure a license to import merchandise into a country, or the importation is restricted sharply and placed on a quota. First Latin America was under restricted license; now it is under general license. Near East points are beginning to open up and gradually other export markets will become available and shipping facilities will improve.

Since drug store product shipments are frequently small in dollar amounts even where severe import restrictions exist, they may be gotten around profitably. In some cases native goods may be shipped in return and sold here. In at least one case the authors know that a foreign country's stamps were shipped out and sold here to stamp collectors. This is now prohibited by law. This is, of course, small business but still other schemes may be developed that will lend spice as well as profit to the business. Even though such schemes can be worked out it is desirable, at this time, to try, as far as possible, to confine export operations to those countries where there is a minimum of exchange restrictions and but slight, if any, freezing of credit, no export restrictions, and a minimum of import license requirements.

Most importers want time to pay for their merchandise. American manufacturers frequently want their goods paid for in cash on arrival. It is generally conceded that products such as drugs and pharmaceuticals can be sold on a cash-on-arrival basis because of the small sums of money involved. If larger orders should warrant it, however, it is then advisable to be more liberal with credit terms and permit the importer to develop a reasonable credit line.

Credit information can be obtained from one's banks. Export bankers usually have a complete credit file on most merchants in the countries where they have branches or correspondents. References can also be obtained from various firms with which the importer is doing or may have done business. In obtaining references, it is advisable or desirable to obtain them from American houses.

The credit problem in export is not so much one of collection of money from a trader,[4] for careful investigation may reveal his standing, as of obtaining the guaranty of exchange out of the country to cover one's drafts. Conditions in this particular field change constantly. Restrictions in-

[4] On January 27, 1941, The National Association of Credit Men reported the losses of American Manufacturers engaged in exporting to have been negligible during the 1937–1940 period, also true for 1933–1937 (N. Y. *World-Telegram*).

creased during the World War II and are likely to remain in effect for some time, so that any firm that intends to embark in the export field might well keep abreast of what is happening in this connection. This can be done through subscriptions to the government bulletins on exchange and through membership in some of the associations that keep one posted on exchange and other export conditions.

Very frequently, the local representative, if there is one, will help collect drafts and take care of problems that are involved in the collection and transference of funds. Representatives on the ground can assist materially in that respect.

SHIPPING

Export shipping involves a problem for any manufacturer, not only from the point of view of the method of packing and care in packing but also from the point of view of classification and description. Some foreign customs officers are only too anxious to find some slight violation of shipments, and then make heavy assessments. At times this assumes the proportions of a profitable racket. Therefore, it is advisable to handle all export shipments through one of the recognized shipping brokers who are fully conversant with all the details required in handling merchandise in foreign markets.

In those countries where merchandise is paid for and duties are assessed on a weight basis, the outside container should be as light in weight as possible. In some countries it might even be advisable to ship the merchandise separate from the immediate containers, and have the local representative do the filling and packing. In this way considerable savings can be effected in duties. This is a problem for each firm to study and work out for each market.

Most of the information necessary to solve these problems can be obtained from either the United States Department of Commerce or experienced shipping brokers. In this connection close cooperation between the local shipping department and the shipping broker is essential. Great care—and this is very important—should be taken that the instructions of the customer are followed to the letter. There are many, many reasons—sometimes some of them cannot be disclosed—why shipment will have to be made in the peculiar manner designated and the best thing to do is "not to reason why but to do or die" when it comes to handling packages for foreign customers.

One of the frequent and important criticisms directed toward the manufacturers concerns the manner in which export shipments are handled, and sometimes the carelessness in which instructions are followed. It might be well at this point to mention one particular country—Peru. If merchan-

dise is shipped to Arequippa, most likely it will be packed on mule back and carried up into the mountains for several hundred miles. Naturally, if a trader instructed the manufacturer to make the shipments in ten parcels not larger than twenty pounds, he would feel rather disconcerted if the shipment arrived at the port of entry packed in a single two hundred pound case. The shipping clerk might feel that the customer was ridiculous to expect packing that way; but the customer's feelings and unnecessary expenses at the other end must also be remembered.

The same holds true in the making out of customs declarations and invoices. Sometimes products that are known to us under one classification have entirely different designations in the countries into which they are going. Since customs officers are no different the world over, it is best to follow the dictates of the customer, and try to get the material into his hands with little or no change in his instructions.

MEDICINALS AND REGISTRATIONS

As has already been pointed out, medicinal products must be registered at boards of health, certain fees must be paid, and qualitative formulas must be disclosed. Naturally, no firm is going to do an export business without registering its trademark. The trademark laws of most countries are reasonably similar.

In too many countries the danger of pirating is still very great. The same care should be taken in registering trademarks for foreign countries as for American markets, and they should be registered before or at the latest as soon as the goods are offered in a country. When a trademark is being registered in a foreign market, an attorney should be employed who is fully familiar with work of this character, and adequate protection should be given to the trademark just as is done here.

FOREIGN CORRESPONDENCE AND GENERAL ROUTINE

Most correspondence from foreign markets will be in the language of the country of origin. For a time this was a considerable handicap to corresponding with foreign markets but of late it has been largely eliminated. Translations can be obtained either from one's export agency or from the service department of one of the export magazines, at nominal cost. Correspondence with these countries can, however, in most cases, be maintained in English, as it is rare indeed that a foreign merchant is not able to correspond in English. It is desirable, as a matter of courtesy, however, to correspond with a customer in the language with which he is most familiar. Be sure in such cases to employ a competent translator so that mistakes are avoided.

The routine of the export department is quite important, both for shipping purposes and for office detail. One individual, outside of the export manager, should be thoroughly conversant with all the facts regarding foreign markets, particularly with respect to shipping and document details. Valuable information that will aid in compiling records, extending credit, making collections, and working out territorial districts may be obtained by correspondence with American trade commissioners and consuls in the respective countries. The Department of Commerce in Washington, D. C., and its branches in large cities can also help considerably in these respects because much information regarding foreign markets is carried in their files.

During the first year of foreign business the export department may show meager results, but in the long run it can be of material assistance in broadening the operations of a business and, at the same time, in offering a feeder and additional income at a minimum of direct expense. One thing must be remembered, there is no such thing as haste in export. A shipment from New York to Java will take seven weeks to get to its destination and one week to clear customs, so that reorders in less than six months would be unusual.

A foreign market, to many firms, represents a difficult proposition; to others, who look upon the field calmly and considerately, it represents just another outlet through which to develop sales with a reasonable profit and at a minimum of effort. In determining your idea about export, it is important to consider the export policy and sales method to be employed in each market. Unfortunately, almost every export market must be considered independently. The methods used in one market may not work in others, and, therefore, for those who would seek some of the foreign business in drug store products, it would pay to read standard foreign trade texts like Horn, *International Trade* (Prentice-Hall, Inc., New York, 1946), the two reports on foreign markets mentioned in the text, and *Export and Import Practice* by F. R. Eldredge, U. S. Department of Commerce. This last is a handy, practical little book to have in your possession.

Much assistance can also be obtained from the staffs of export magazines like *El Pharmaceutico, Export Trade and Shipper,* and the *American Exporter;* or one may resort to the United States Department of Commerce, which publishes *Foreign Commerce* and many other helpful documents. In fact, the concern that plans on or is already in foreign trade can secure considerable aid by making full use of the foreign trade service of the United States Department of Commerce, Bureau of Foreign and Domestic Commerce.

GUIDANCE FROM UNITED STATES DEPARTMENT OF COMMERCE

This department of the federal government has a number of guides especially for the new foreign trader. These are:

1. How to analyze your business from the export standpoint
2. Where to go for help such as
   a. The Bureau of Foreign and Domestic Commerce
   b. Trade organizations
   c. Private organizations
3. Helpful tools, *re.* a series of books and pamphlets which tell one how to go about establishing oneself in a foreign market

One of the best things a new or prospective foreign trader can do is to register with the bureau for either the *Exporters Index* or *Importers Index* and then to utilize to the full the services of the bureau. These have been built up over the past 25 or 30 years and include nearly everything one would need to know about to enter the field.

Illustrative of the guidance that this government bureau can give the following case is presented: [5]

Case History. The President of a Midwest pharmaceutical firm was interested in the possibilities of entering the Latin American market. He wrote to the Bureau asking for information and advice, admitting it was a new venture for his company.

The letter was turned over to the Bureau's specialist on drugs and pharmaceuticals, who in his reply summarized foreign trade procedure and described the post-war market possibilities in and included pertinent statistical data on the Latin American market. Lastly, the specialist enclosed an introduction to the manager of the field office located near the manufacturer.

Our Bureau specialist next heard from this manager, who reported that the inquiring manufacturer had conferred with him on several occasions.

Field Office Aid. Through these conferences a limited line of products had been selected for export. They had developed an over-all appraisal of each market. A promotional program had been planned.

With the aid of the Department of Commerce field representative, the manufacturer now had a selected list of prospective distributors for each country. He had even acquired the services of a capable foreign trade executive, and had decided to send him on an extensive trip through Latin American countries to test their plan.

But there were certain problems that the president of this firm wanted to discuss with the Bureau's specialist in Washington, and arrangements were made for a meeting.

Bureau Explores Case. Every phase of this manufacturer's program was carefully studied by Bureau specialists, who were not only familiar with the products in question but who had been over the proposed territory.

At the outset, this business executive was given a clear-cut picture of the competitive situation he would find, and suggestions as to how to cope with it.

[5] *The Business Man's Bureau,* U. S. Dept. of Commerce, Washington, 1944, pp. 30–31.

When the subjects of trade barriers, such as tariffs, taxes, local laws, and exchange were discussed, specialists in the Bureau's American Republics Unit gave expert advice. Next, the international advisor on patents, trade marks, and licensing procedures was consulted.

As to the list of prospective distributors provided by the Field Office Manager, this had been originated by the Bureau's Commercial Intelligence Unit. Here the manufacturer's list was carefully appraised, and through up-to-date credit reports the list was rated as a guide for his foreign trade representative in contacting the distributors.

Problem Solved. Three months later the export manager of the concern visited the Bureau. He had returned from his trip, had set up agencies, and was now faced with difficulties in meeting commitments.

Specialists on transportation, trade controls, containers, advertising, and so on, all gave suggestions and advice. Through such counsel, the Midwest manufacturer was able to solve his problems and inaugurate service.

Chapter 20

NECESSITY FOR MARKETING RESEARCH

A book such as this does not need a chapter on Marketing Research. If you have market problems you will probably hire a marketing expert and have him try to find the solution. But marketing is, if anything, a series of problems and the principal tool used in their solution is research. Because research is so important every one engaged in business should know at least the processes of research. This chapter tells you the research procedure used in marketing and just how it is done. From it you can learn the importance of developing the scientific attitude toward the problems which arise daily in your business and how to handle all but large field jobs.

The need for research in industry and commerce has become pronounced during the past two decades, and businessmen have given increasing attention to it. During the past decade the attention paid to commercial research has been such that rapid advance has been made in the quantity available and the quality of market data, and knowledge of research procedure is now more widespread than before. However, its use has not been as widespread as seems advisable. For example, in the drug field most of the principal producers have made extensive use of research in the physical sciences and more particularly in the field of the relations of their products to the needs of consumers, but of marketing research there has not been much.

WHAT IS MARKETING RESEARCH?

Too many businessmen still regard marketing research with superstitious awe and act as though they were dealing with magic. There is nothing mysterious about research and its procedure. As one authority has said "investigation is a search for truth, for facts, for certainties,"[1] and Webster defines investigation as "the process of inquiring or examining into with systematic attention to detail and relationship."[2] Research then is the orderly, as against haphazard, investigation of problems, and marketing research is the orderly investigation of business problems related to the marketing of a product.

The definitions of research quoted above have been presented to indicate that investigation is not a mysterious procedure and that consequently it is

[1] Walter E. Spahr and R. J. Swenson, *Methods and Status of Scientific Research*, Harper & Brothers, New York, 1930, p. 1.

[2] Quoted by J. Eigelberner, *The Investigation of Business Problems*, A. W. Shaw Company, New York, 1926, p. 3.

not beyond the ken of ordinary man. Definitions, however, tend to oversimplify and the impression should not be gained that research is either easy or simple. True enough, much depends on the problem to be solved, but since all kinds of problems arise for solution one ought to know more than a definition. This is obvious when one asks the questions, what is true, what is a fact, how discover the truth, what method shall I follow, and then how shall I treat the facts to get all possible information from them and present them along with the conclusions warranted by the facts? The space at our disposal does not permit an exhaustive treatment of research; there are several good treatises listed at the end of the chapter which might be studied to advantage.

In preceding chapters, we raised a number of questions as to what the manufacturer and distributor want to find out in the drug field; here we want to sketch the procedure for discovering the facts necessary to solutions of problems.

The people who are concerned with marketing research and analysis, whether as participants or as recipients of the results, recognize that there are roughly seven factors that by definition can be regarded as covering all the operations that come under the head of our subject. The Committee on Marketing Research of the American Marketing Association, following exhaustive analysis and study, listed the four factors as follows:

1. Preparation for the research, which means
    a. the analysis of the problem, and
    b. the planning of the procedure of the research.

These two include all of the factors which enter into a diagnosis of the situation for which research is required, as well as the type of research which should be undertaken.

2. Execution of the program, which means
    a. collection of the data, and
    b. organization of the data.

These embrace the use of the various types of research usable in the field of the social sciences and the multiplicity of sources from which data pertinent to the problem may be secured; and the various methods of organizing data involving the use of known statistical and testing techniques and the forms of graphic presentation.

3. Summation of the data, which includes
    a. interpretation of the data, and
    b. thorough presentation of them.

These make necessary the use of psychological and logical processes involved in thinking, in determining the relation of the data to the problem and the form in which the report should be presented to be most effective in securing desirable action.

4. Extension of research service. This means the application of the findings, continuation of research in the particular field, and making the necessary revision in the original findings as additional evidence makes this necessary.

We are concerned principally with the analysis of the problem. In the analysis of the problem we are concerned with four steps: (1) defining the objective; (2) determining the facts that are required; (3) determining where the facts are to be found; and (4) determining how the facts are to be found. Among scientists analysis of the problem is recognized as the most important step in research because by means of it one determines what is to be the purpose of the study, and this in turn indicates the scope of the study.

The subject of the research should be clear and definite in the minds of those who are to direct and carry on the study. It is necessary to know what data are required to secure a possible solution, where they are to be found, and the methods to be used in securing desirable information. In the field of marketing research this is not so true since the problems are present and must be solved if satisfactory action is to follow in the marketing of specific products. Even so one will frequently find that clients are not always clear as to the problems they face and a preliminary analysis may be necessary to find out just what needs to be studied.

DEFINING THE OBJECTIVES

The preliminary analysis may be simple enough. It frequently is nothing more than talking over with those concerned the situation that gives rise to the problem. In these interviews there is one important question to bear in mind: what is it that is to be discovered? You may find it necessary to talk with people outside your organization as well as with some in your own.

This preliminary analysis may be all that is necessary. It may reveal a simple problem the solution to which may come to mind at once as the result of your own experiences in marketing. Or the problem may be one that can be settled by a reference to some encyclopedic volumes as in the following cases:

What was the sales volume of drug stores in 1945?
What was the national income in 1943?
How many people live in Keokuk, Iowa?
What were the profits of Parke, Davis & Co. in 1945? in 1932?

With more difficult problems the preliminary analysis should be used to discover the feasibility of the projected research and to indicate the details to be completed to arrive at a solution. The more difficult marketing situations call for the use of a procedure that will leave no doubt about securing the answer to the problem. Previous to the last decade the procedure was largely that indicated above as the preliminary analysis. Now the procedure is to resort to the more formal type of interview in which a check list is used. Several excellent check lists have been devised and made public. These may be used as they are or adapted to meet specific cases, personnel, or procedures. One of the first to be made public was the *Sales Expansion Question Book* of Roy Giles. This is a book of nearly 700 questions which Mr. Giles reports using with new clients of the Blackman Company to discover what the client's marketing problems are. Another is the *Balzari Check Chart* published by McGraw-Hill Publishing Company, Inc. Here on one sheet are 3600 questions that may be answered by an industrial concern, from which might then be drawn the marketing problems confronting a business. Another such device is the *Analytical Outline* used by Cowan and Dengler, Inc.; and still another, the one put out by the United States Department of Commerce entitled *Check Sheet to Introduction of New Consumer Products,* Market Research Series, no. 7, revised.

DETERMINING THE FACTS THAT ARE REQUIRED

After the preliminary analysis reveals the problem there then remains the need to discover the scope of the study. A more detailed analysis now becomes necessary. Now it becomes desirable to gather together and to examine readily available material that may help to solve the problem. Some of this material will need to be tested as to its authenticity and its relevancy to the problem. The analysis of the problem from the point of view of information on hand should reveal the portions of the problem still remaining to be studied; and analysis of these should indicate the facts that may be required for their solution.

The facts that may be required will, in the field of marketing, apply, in nearly every case, to the product, the customer, the sales tools, the sales plan, the costs, or finally the results of operations. The Industrial Committee of the New England Council in a short check list suggested what a concern ought to know about these. The following paragraphs paraphrase the committee's suggestions. The answers to these questions should indicate what facts are required to solve the remaining portions of the marketing problem. This might well serve as a model for the drug trade.

1. Our Product. How do we know our product fully meets the customer's needs, tastes, or ideas? Have we recently checked with our cus-

tomers whether or not our product is satisfactory to them? Is quality of our product the best possible for the purpose or service for which it is designed? Can we increase the utility of our product? Should we redesign? Can we develop new uses for our product? Can we improve the appearance of our product? What other improvements if any would be acceptable to our customers? Does our product meet nationally recognized standards and specifications for goods of its class or kind? Are products of some other industry displacing our products? Are there products for which buyers are waiting that we should be developing?

2. Our Customer. Who buys our product and why? How often does each customer buy our product? How much of our product can each customer use to advantage? What percentage of our annual sales are repeat orders? Are we reducing our customer turnover? Are we inviting customers who have not bought recently to consider the advantages in our latest product? Who are prospects for our line? Where are they located? How many of them are there? What percentage of total market for our class of product is represented in our sales? Can we increase this? Are we using the Department of Commerce "Market Data Handbook," "Industrial Structure of New England," "Commercial Structure of New England" as market information sources? Why not? What allied or related lines are customers buying? Why? What competing lines are customers buying? Why? Do such purchases suggest new markets—new selling activities—that we should develop?

3. Our Sales Tools. How can we improve our training of salesmen? Have we furnished our salesmen a manual of selling ideas and complete information about our product, its use; our company and its policies? What difficulties do our salesmen have in selling our product? Do we record, analyze, and correct the difficulties? Do our salesmen obtain orders without concessions? Do our methods of compensating salesmen produce the incentive necessary for the desired results? Do our studies of dealers' methods of selling and displaying our product suggest new ways of helping them sell more and make more? Can we increase sales through a more liberal credit policy without exceeding the percentage of bad-debts loss allowable for our business? Do our methods of packing, shipping, and delivering bring our products to the customer in the best condition, in the least time, and at the lowest cost? How much can we increase our service to customers without sacrificing too much profit? Is anyone in our field giving lower price, better value, and better service? Does our advertising tell the customer what our product will do for him or does it merely describe it? Are we doing enough consistent advertising to prove its sales value? Do we apply what we learn by comparing competitors' advertising with ours?

4. Our Sales Plan. Do we maintain adequate records of sales, by items? lines? accounts? territories? salesmen? What items in our line constitute the bulk of our sales? of our profits? On what items do we lose money? Should we discontinue any of these "loss items"? In what territories have our sales declined? Do we know why? Are our quotas broken down into amounts of "repeat" and of "new" business expected from each territory? Are our present sales outlets right as to type? location? number? methods? service to customers? Are there any new trade channels through which our goods can be moved economically to the customer? Are we cultivating our market as intensively as we should? Are we exporting? If not, why? Will the market absorb our output on a capacity basis? Have we any excess manufacturing capacity we should eliminate? Do we forecast and budget sales? Are we balancing our sales and our production with respect to quantities to be manufactured and carried, quality standards to be maintained, costs to be met, steady employment for our workers, and profits to be made? Who are our competitors, within our industry? outside our industry? Are we cooperating with the other members of our industry in meeting the competition of other industries? What is there in our competitors' products, services, or methods, not in ours? Should we "match" them in those matters?

5. Our Costs. Do our manufacturing costs show costs of individual items? Can we reduce any of our costs of manufacturing without sacrificing quality? Do we know what it costs to sell each item in our line? Can we reduce any of our selling costs? Do we analyze our selling costs for their effect on our present margin of profit? What is a fair and reasonable margin of profit on each item we sell? Can we increase the price of any non- or low-profit items. Do we know what the smallest order is that we can profitably handle? Should we discontinue some of our less profitable items and concentrate on our more profitable ones? Are we making a profit from each account on our books? If not, should we stop selling the nonprofitable accounts? Is cultivation of distant markets absorbing too much of our profit? Does our present volume at present prices and profit margins yield us a fair return on our investments? What combination of volume, price, and profit margin will give us a fair return on plant investment?

6. Our Results. What is the extent of our "cancellations"? How can we decrease them? What do our "returned goods" amount to? Why are they coming back to us? What is our "accounts receivable" turnover? Can we increase it without loss of customer or good will? What is our annual "dealer-mortality"? Is it too high? too low? Are we too conservative in our discounts? or too liberal? What do our "lost sales" amount to? What causes them? How can we convert them into orders?

Is our finished product inventory "turning over," item by item, or line by line, at the most profitable rate for us? for our dealers? Is our production system flexible enough to permit quick adjustment to fluctuations in demand? Are we utilizing research: to improve products; to develop new products; to cut our manufacturing costs; to broaden our markets; to better serve our customers? Do we study business trends; within our industry; in allied or related industries; in competing industries; in industries generally? Do we test the effectiveness of a policy or method before we adopt it as our standard? Do we insist that every phase, activity, or element of the business shall justify itself on the ground of profitableness?

DETERMINING WHERE FACTS ARE TO BE FOUND

The next step in the analysis is that of determining where the facts are to be found. The facts necessary to the marketing of a product are of two types, *internal* and *external,* so-called because the first type is to be found within the organization itself, and the second type is to be found outside the business.

Internal facts have to do with the operation of the business itself and may be regarded as concrete or abstract in nature. The *concrete* type of fact is to be found in the reports of salesmen, book records of sales, correspondence files, and records of previous studies of the enterprise's marketing problems. These records will yield information of sales by individual customers, trade areas or sales territories, salesmen, product, and size of order; changes in product, reasons for these changes; relation of sales to business conditions; and much other interesting material.

The type of facts *abstract* in nature may be gathered from a study of the correspondence and interviews with the personnel. This study should reveal information about the policies of a business enterprise, the attitudes of the personnel toward the enterprise, its products, the customers and colleagues, and the habits of the personnel, particularly the marketing staff, of which the sales and advertising forces require study especially.

External facts are to be found outside the organization, from among consumers and dealers, who do or might buy your products, competitors, and authorities who have special knowledge of your markets, your product, and the difficulties of selling it. This type of fact will give information about the race, sex, age distribution, occupation, and incomes of your prospective customers; it will furnish information about the climate and topography of the sales districts into which you have broken down your market, and which affect the consumption of your product. External facts will tell you the reaction of the consumer to your product and of the dealer to your policies.

Some of this second group of facts are already available. Not all of them need to be the subject of special inquiry among the sources listed above. Some of them are already recorded in reports of one kind and another and may be secured from these sources when and as they are located. Some of these data are statistical and appear in printed form regularly and periodically.

DETERMINING HOW FACTS ARE TO BE FOUND

The analysis of the problem has now yielded the following information: (1) The facts necessary to a solution and (2) where the facts can be obtained. The analysis should further reveal how the facts are to be found. The scientist has developed several ways of securing information. They are the following: (1) experiments with observation; (2) observation; (3) bibliographies; (4) interview, face to face or over the telephone; (5) mail questionnaire; (6) consumer panel; and (7) dealer panel. The first two of these, observation with experiments and observation, have been important factors in the development of the physical sciences. In market research they have not been so widely used although they have a place and may be made to yield more data than is now the case. Examples of the use of this technique for fact gathering may be found in the experience of companies who establish experimental retail stores or departments in established stores to try out new merchandising ideas; test window displays after careful selection of locations, using approved measuring methods; or the studies made in connection with surveys, like the St. Louis Drug Store Survey, which resulted in the report *Drug Store Arrangement,*[3] or the National Health Survey, which resulted in the report on the *Magnitude of the Chronic Disease Problem in the United States.*[4]

Tests may also be made of individuals' reactions to the color, the taste, and the odor of one's product. One of the liquor-producing companies has established elaborate laboratory arrangement for such tests on a scientific basis by contrast with the hit or miss human "taster" system so long in vogue.[5] Since perfumes are bought largely by scent or appearance of bottle, here two important tests could be made.

The second method, bibliographical research, ought, perhaps, to rank first. Thousands of studies dealing with marketing have been made since 1920 and many of these have been recorded and are available for inspection. In addition, other studies that throw light on marketing problems have also been made. Bibliographical sources ought first to be examined for any

[3] U. S. Dept. of Commerce, Washington, D. C., 1932.

[4] U. S. Public Health Service, Washington, D. C., 1938.

[5] Address by Dr. E. H. Scofield of Jos. Seagram's Sons, Inc., before the Market Research Council, New York, Feb. 18, 1944.

material they might reveal bearing on the problem under consideration. Two main problems arise in connection with this factor: (1) where are the sources of bibliographical data to be found, and (2) how test them for reliability? The sources are two, external and internal. The external, or sources outside the business, are principally libraries, governmental departments, trade associations, bureaus of business research, advertising agencies, and publishers. Each of these is important and has contributions to make to nearly every problem that arises.[6]

The internal sources already referred to are the records of the business itself. Sales records, when properly kept, can be made to yield data as to the profitableness of each product sold, each trade area operated in, each customer sold, and each salesman selling the company's product. They also may yield comparisons of the past sales with general business conditions that existed, and they may serve as a base for forecasting future sales.[7]

Bibliographical data are usually open to criticism. How competent an observer reported the facts; how faithfully were they reported; what biases or prejudices entered into the collection and interpretation of them; what position was the author in to secure and report the data; how soon after the observation were the data reported? The answers to these questions will usually be enough to test the reliability of the recorded data.

When the data gathered by the two methods outlined above are not sufficient to solve the problem then there may be need to go into the field to discover what is missing. This is usually an expensive way of gathering facts and should be resorted to only after all other material has been exhausted. Interviewing, mail questionnaires, and panels are the methods of fact gathering used to secure data in field research. Each of these has advantages and disadvantages. Because of the importance of these methods in securing market data it is desirable to set forth some of the advantages and disadvantages.

By most research workers the interview is preferred to the mail questionnaire. Correct sampling methods may be used? We secure the desired information in person and can control the situation to secure better representative replies; we are likely to get more accurate and fuller replies and if there is some difficulty with the meaning of the questions we can explain it. Many more questions can be asked and here and there a prompting secures much more information than otherwise. Usually interviewing is taken more seriously by those we talk with. When information is sought

[6] See *Market Research Sources* (Dept. of Commerce, Washington, the several issues since 1932); bibliography in the *Technique of Marketing Research*, pp. 403–422; and Spahr and Swensen, *op. cit.*, Chapters XV to XVIII.

[7] See *Printers' Ink*, March 1930, "Budgeting Territorial Sales," by J. J. Witherspoon.

by mail, questions must be few in number, brief, and say exactly what is meant.

The principal objections to the personal interview may be stated as:

1. The expense of a widespread survey.
2. The time necessary to complete such a survey.
3. The training necessary to conduct an interview skillfully and to secure accurate results.

If good results are to be obtained experienced investigators carefully trained in the method of carrying on interviews are necessary and this is an expensive job. It is possible to cut the cost somewhat by hiring professional investigators for each job who are available in various communities, or to use your own sales force. Specialized agencies are increasing in number, fortunately, because of the importance of this type of fact-getting.

Information requested may be considered confidential and the person being interviewed may not want to give it,[8] and yet he may give it readily on a questionnaire that is unsigned and unidentifiable. Other advantages of the mail questionnaire are:

1. It is inexpensive.
2. A wide territory can be covered.
3. Survey can be conducted quickly.
4. May give cues for further investigation.
5. It aids to crystallize thought about the problem.

About the last two, there is no question. The first advantage may be questioned. If you send out 10,000 letters with a questionnaire and allow for a returned stamped envelope, the cost would come to, say, about $600. The assumption is that you have selected the names carefully to get good distribution. If you got back a fair number equally distributed the cost would be less than if a similar number of interviews were secured. But a 10 per cent return would be good and this means a cost of $600 for a thousand returns or sixty cents a return. If the returns are not evenly distributed in accord with correct sampling procedure the cost may be heavy for the information secured.

The disadvantages of the mailed questionnaire are:

1. The small percentage returned, anywhere from 2 to 50 per cent, frequently not more than 10 per cent.
2. Uneven distribution of the replies, some sections more heavily represented than others.

[8] Note the furore that arose over the income question in connection with the U. S. Population Census for 1940.

3. Replies come from a selected group and this does not give the replies from those wanted.
4. The answers are categorical; few things or situations are so clear that an opinion worth anything will rarely be obtained.
5. The nature of the replies is uncontrolled and uncontrollable.
6. The problem of the significance of unreturned questionnaires and unanswered questions.

If data are to be gathered satisfactorily by use of the questionnaire, mail, or interview. it must be understood that the technique required in its use calls for considerable training, first in the construction of the questions to be used; second, in selecting a sample that will be representative of the whole market to be covered; and third, in carrying on an interview; where the telephone is used for interviewing, training in voice culture is also desirable.

The panels are a recent device for securing information from the field of consumption, in an attempt to discover more accurately than by interviewing just what people buy, how often, brand changes, and why. In the consumer panel a sample of consumer families is selected so as to be representative of all the families in a market. Each family records its purchases of the items the researcher is interested in. From time to time the records are analyzed and reports made. In the dealer panel a group of retailers is selected to be representative of all dealers. These dealers agree to submit to an inventory accounting every so often. This accounting is then analyzed for sales volume of specific items, shifts in brands purchased, and so on.

The principal disadvantage of either panel is the cost. A consumer panel sampled for the country as a whole may cost as much as a million dollars. No one concern operates either panel. The research organizations operating them, like Industrial Surveys or A. C. Nielson Company, carry on their operations of panels for fairly large groups of producers making possible a distribution of costs that puts no great burden on any single concern.

What can be done through research may be seen from the following questions and answers. These were raised in connection with a proposed small business several years ago and the information was secured by means of bibliographical research and interviews.

(1) What is the comparison of imported to domestic perfumes?

Imports of perfumes are grouped together with toilet waters. Every year since the World War, with the exception of 1921 and 1922, they have shown a decrease in value. Their 12-year average value (1919–1930) of $2,734,000 shrank to $714,000 in 1931 and to $189,000 in the first half of 1932.

Manufacturers of perfumes have been separately shown only in the census for the years 1927, 1929, and 1931. In the previous census, covering production in 1925, they were shown with toilet waters, but before this they were grouped with other toilet preparations in a general classification. Production in 1931 (according to preliminary figures) was approximately one third less than in 1927. Considering changes in prices and the depression, this is not a serious decline. Imports have declined by several hundred per cent. Domestic manufacture has advanced very materially and is more pronounced now than ever.

(2) In what part of the country is the industry now chiefly located?

Establishments making perfumes are located in almost every state of the Union, the distribution varying, roughly, with the population of the state. New York City and Chicago are the leading centers, but there is a surprising number of factories in small towns, some of which are not even within a metropolitan trading area. In one case called to my attention, a woman owning a small store in Pennsylvania has built up a fine perfume business.

(3) What is the most ideal location in relation to labor, market, etc.?

There seem to be no special factors affecting the location of perfume factories as far as raw materials, labor, or power are concerned but consideration might well be given to the market to be reached and the methods of reaching it. Obviously, both these factories are largely affected by the amount of investment to be made in promotional sales effort. An analysis of sales in certain states made on the basis of the new "Census of Retail Distribution" indicates that at least half of the toilet preparation sales by merchandise outlets are made by drug stores. Anywhere from 23 to 30 per cent of the sales are made by department stores, with another 13 per cent made by the variety, 5, 10, to a dollar stores. Analysis of data such as these would be helpful in deciding on the market to be reached, the retail outlets to be used, and the best way of reaching the public. The study I have made suggests that your problem will not be one of manufacturing but one of marketing the product. The following bibliography may be valuable in this connection. Manufacturers of ingredients to make perfume can offer helpful suggestions for sales promotion.

(4) How does the domestic product compare in quality with the foreign product?

The perfume trade claims that they can and do produce equal in quality to imported perfumes.

(5) What ingredients are necessary to the manufacture of perfumes?

It would be impossible to tabulate the many hundreds of different aromatic odors derived from fruits, leaves, seeds, herbs, roots, balsams, resins, etc., the substances from animals, such as musk, civet, and castoreum, or the many hundreds of synthetic coal-tar and ono-coal-tar products derived from the mineral kingdom which are used in making perfumes. These are dealt with in many authoritative reference books giving formulae, a list of which is included in the bibliography. Your attention is also called to the "Census of Dyes," published up to 1931 by the United States Tariff Commission (1930 annual, price 20 cents) which gives names of manufacturers, prices of and economic data on synthetic materials. Current prices may be obtained from the weekly trade paper, "Oil, Paint and Drug Reporter," published at 59 John Street, New York City.

(6) What materials cannot be obtained in this country?

A description of the domestic cultivation of essential oils is given in a report published in the January 19, 1931, "Commerce Reports," a copy of which may be found in the files of the New York City office of the United States Department of

Commerce. "Foreign Commerce and Navigation of the United States" tabulates imports of those essential oils in demand by foreign sources. Copies of this annual are available for reference at various libraries, or may be purchased from the Government Printing Office, Washington, D. C., or from the New York City District Office of the Department of Commerce. Suppliers of synthetic products are listed in the "Census of Dyes" referred to above.

(7) Relative cost?

There is little basis for comparing relative cost of domestic with imported essential oils since there is little competition between the two. As to the relative cost of natural and synthetic aromatic materials reference may be made to the price lists of the "Oil, Paint and Drug Reporter."

(8) Is it possible for research to find substitutes for ingredients not available in this country?

In the synthetic field this research has been carried on for many years and amazing strides have been made in developing synthetic aromatics. For a brief resume of the history of these developments, reference might be made to Chapter XVI in Volume I of "Chemistry in Industry," edited by H. E. Howe. In the natural field, experimentation has been carried on by many laboratories and growers and under the encouragement of the Bureau of Plant Industry, Department of Agriculture, who would be glad to furnish reports on progress made. In this connection, one may call on any company which makes synthetic perfume oils and they can supply you with any ingredients necessary to start a perfume business, and in some cases the accessories also such as bottles, labels, and outside containers.

(9) Can an analysis be made of most foreign brands?

The methods of analytical chemistry might be used to obtain the working formulae of any brand. This does not mean that the formulae obtained will produce the same results since in so delicate a thing as a perfume the varying physical characteristics of the oils require a special skill, beyond the ability to follow a recipe. The making of perfumes has been described many times as more of an art than a science. Certainly the perfection of an odor cannot be obtained just by rule of thumb.

(10) Formulae.

English and foreign formulae may be obtained from various books. A bibliography is not appended since appropriate references are to be found all through the book.

At any given moment of time we would need to consider prices and the possibility of change. If prices are high and indications point to a change downward it would not be advisable to start a business enterprise and buy much merchandise. It would be better to wait a while and watch for the changed conditions under which one might have a better chance to get started.

With the data resulting from the investigation of the questions raised, one is in a position to determine the policies to follow and the practices necessary to put the policies into effect successfully.

CHARACTERISTICS OF THE PRODUCT

Surveys that can be made readily and studies that already exist in the drug field will enable one to determine the general classification of the product to be marketed, that is, whether it is a luxury, a semiluxury, or a necessity. Research should be employed to disclose the peculiar need and desires

that the product will try to satisfy. Naturally, from this investigation there will be disclosed facts about consumers and their reactions to this type of product and the best policies and practices to be employed in marketing it.

Next it is necessary to decide whether to market a single item or a family of products. Frequently a product can be marketed as part of a group or family of products that of itself does not warrant any independent exploitation. In the cosmetic field are many products known as "trailers." That is, they benefit from the brand preference of a particular leader made by the same concern. Research should be undertaken to disclose whether an individual product of this type has a market sufficient to warrant extensive investment. It will be found through research that possibly two or three optional products can be marketed at the same time, with but comparatively little extra expense. The selling cost in the drug field for one or for a family of four or five products is practically the same. However, unless adequate profit margins are possible and unless the market is measured accurately, the decision as to the particular marketing practices to be undertaken may be the incorrect one.

COMPETITION

We must then consider the competitive factors. In other words, the competitive factors separate into several distinct groups and conditions. Is the principal competitor the dominant factor, or is the competition divided among many products, none of which is strong enough to dominate the field? Is the field overcrowded? Is there room for a new product such as is being offered, or is the addition of the product merely an attempt to force one's way into an already crowded market with no possibility of success? It is very important to determine in this connection the reasons for the purchase of a competitor's product; the failure of the competitor's product in any respect; and what there is about the new product that can answer a demand that is not already filled by other merchandise in the field.

Research should disclose consumer and dealer preferences and desires. It should also disclose consumer possibilities and the rate of consumption of particular products; sectional and local peculiarities and the strength they possess so that adequate measures can be taken either to meet or to overcome them; the influence of private brands; dealer and wholesaler reactions to methods, policies, and products; and the strength of dealer organization in various marketing areas. The Bureau of the Census has on occasion pointed out how the Census of Business may be used:

Under the heading "if you are a manufacturer" the author suggests the following ways in which the census should be used: "(1) to determine—kinds of goods; (2) to determine whether there are other kinds of stores that sell or might be in-

duced to sell your products; (3) to learn how many wholesale merchants, jobbers, brokers, and other types of wholesalers there are in any given section of the country who distribute your goods; (4) to measure your potential market; (5) to adapt sales policies to the requirements of retailers; (6) to determine price policies; (7) to reconsider your present marketing methods and policies; (8) to avoid costly experiments in marketing; (9) to check advertising plans, and (10) to locate distributing warehouses."

Much of what research can discover has been indicated in preceding pages; note particularly Chapter 1, although other chapters also contain significant materials that can be further ferreted out by research. The possibilities are almost limitless to the wide-awake, well-trained organization.

The following illustration, even though in another field, can be studied as illustrative of a research job involving much of the procedure outlined in this chapter, which was brought to a satisfactory conclusion.

CASES ILLUSTRATIVE OF ANALYSIS OF PROBLEM

A group of electric light and power companies wanted to increase the sale of their product—electric current. Analysis of the problem disclosed that commercial customers were using about all that could be expected, but that domestic users were, on the average, using only small quantities. How could they be induced to use more current? Further consideration led to the hypothesis that if families could be induced to buy more electric household appliances greater sales of current could be effected. Analysis was then undertaken to discover how more sales could be made. Search of internal records revealed that costs of selling such appliances were high; that turnover of sales forces was heavy and that little, if anything, was being done to train sales people in this field. The analysis suggested that the problem was to secure or to train sales people until a competent force was engaged in this work.

Analysis was then made to discover just what sales-training material was available and being used to train salesmen. This analysis revealed an inadequacy of material that was shocking. The problem then became one of developing a sales-training course which would be reasonably effective.

Analysis was now necessary to determine what facts were needed, where these facts could be obtained, and how they could be obtained. This analysis suggested that all material bearing on sales training in this and related fields should be obtained; that studies should be made of the work done by salesmen in these and related fields, and of the difficulties encountered by sales people in these and related fields. The analysis suggested that these materials could be secured from the interested member companies, from companies in related fields, from salesmen, sales supervisors and managers, and from consumers. The analysis suggested that all bibliographical materials relating to selling at retail and in these fields particularly be studied;

that salesmen be accompanied and observed on their selling trips; that the part of consumers be played by investigators and further observations be made; that executives, sales supervisors, salesmen, manufacturer's executives, and consumers be interviewed, and that questionnaires be sent by mail to salesmen and sales supervisors so designed as to secure pertinent information as to the type of sales-training program that might be effected.

Out of the mass of material so secured came a sales-training course that seemingly would be effective, and it was a course different from anything then available in this field.

Research can also be used to gather data which become the basis of forecasting and displace guessing of the sales of a product. For example, H. Webster Johnson, of the United States Department of Agriculture, made a comprehensive study of the problem of forecasting sales.[9] In the course of his study he dealt with forecasting the sales of several wholesale druggists. He used many of the indexes published in the *Federal Reserve Bulletin, The Survey of Current Business,* and *Business Week.* He discovered a remarkable similarity of movement between the "Index of Income" of *Business Week* and the sales of a number of wholesale druggists in several of our large cities.

The study shows that sales move up and down as goes the income in those areas and in almost the same degree of movement. If a wholesale druggist could anticipate the flow of income, he could then forecast fairly accurately the flow of orders, in general, for what he sells. If this is true of the wholesaler's business, to some extent it would be true of those who supply the wholesaler. However, manufacturers are dealing with an individual line and not with the thousands of items carried by the wholesale druggists.

We have here, though, a starting point, and given a good product that people use and good management its sales will probably follow the income pattern, but other factors will need to be considered. An epidemic would cause an increase in sales of certain drugs far out of proportion to income changes or in spite of them. Likewise a new discovery like penicillin might lead to very heavy sales of it and a falling off in the sales of some other drug product even though income has not changed. But those in the trade who are watching such developments will make allowance for such changes and use the income figures with a considerable amount of success in forecasting sales.

Marketing research is so important in business today that this chapter could well be expanded into a book. This, however, is not necessary because there are several good books in this field that are readily available.

[9] *Journal of Marketing,* July 1944, Vol. IX, No. 1.

These should be read as soon as possible. They are as follows:

The Technique of Marketing Research, by a Committee of the American Marketing Association, McGraw-Hill Book Co., New York, 1937.

Marketing Research and Analysis, by L. O. Brown, Ronald Press Co., New York, 1937.

Consumer and Opinion Research, by A. B. Blankenship, Harper & Bros., New York, 1943.

Chapter 21

GOVERNMENT REGULATION

This chapter is concerned with the regulation of the marketing of drugs, cosmetics, and devices. It treats especially of Federal regulation through the Federal Trade Commission and Food, Drug, and Cosmetic Acts. The principal sections of these acts affecting drugs and cosmetics are stated and the application indicated. The penalties and procedures under the acts are shown and the position of the courts relative thereto is indicated.

Because of the nature of the products with which this book is concerned, we find a considerable amount of government regulation that has substantial effects on the marketing of them. Our products are concerned with health and looks and to most of us few things are more important. Most consumers probably believe it is right for government to be deeply concerned about protecting them in matters so vital to their well-being. Most businessmen find that it pays to conform to customers' wishes; and this is as true in regard to sound yet reasonable government regulations that protect consumers as it is in regard to good merchandise at fair prices.

Government regulations range from those of local governments, through state governments to the federal government. We shall be concerned here with the regulations of the federal government and principally the Federal Trade Commission Act and the Federal Food, Drug and Cosmetic Act.[1] We are concerned with these because most drug and cosmetic manufacturers engage, in one way and another, in interstate trade; or through advertising and use of the mail they find themselves in contact with the federal government and so become subject to its regulations. City and state regulations frequently copy the Federal Food, Drug, and Cosmetic Act. In some cases they add to the federal act by stipulating the licensing provisions of drug stores and thus limiting the number of outlets, or they may be more severe in their restrictions as, for example, prohibiting the sale of some items. In addition the state and city governments through their laws may become, in effect, enforcement agencies for federal legislation. State laws may also be of interest in settling what a drug store is for purposes of sale as is the case in the State of New York with respect to vitamins.

[1] For additional material on regulations see Chapter 5 and p. 262 covering certain regulations affecting manufacture.

Many grocery outlets would like to sell vitamin pills or capsules and they reason that vitamins are food and so can logically be sold through food stores. But just as logically the drug retailer says vitamin concentrates prescribed by physicians to heal the body are drugs and should be sold only through the outlets licensed by government for that purpose.

The sale of vitamins is prohibited in grocery stores in New York, as previously indicated. However, in communities of less than 2500 population there are fourth class drug stores, which are usually general merchandise stores. These stores may sell vitamins when licensed to sell drugs in original packages without the services of a pharmacist.

The New York State Pharmacy Board asked the State's Attorney General for a ruling on vitamins as a food or drug. He gave an opinion on June 22, 1944 to the effect that vitamins were drugs. The New York State Food Merchants' Association made a complaint against the Pharmacy Board's restriction of vitamin sales to drug stores. The board asked the court to dismiss the complaint. Judge Aaron J. Levy refused the board's request and gave them twenty days in which to answer the complaint. This may result in a trial, in which case the court will settle a vital problem of great interest to producers of vitamin products.[2]

THE FEDERAL TRADE COMMISSION

The Federal Trade Commission administers the Federal Trade Commission Act, Sec. 5 of which says: "Unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are hereby declared unlawful." These are broad terms and therefore include many acts that businessmen have performed and that in the eyes of the commission have been unlawful. The *Annual Report* for 1943 contains a list of types of unfair methods and practices covering nearly eight pages. This is the nearest thing to an authoritative codification of the stipulations of the commission that can be found. They are typical and, therefore, cover variations that run into the hundreds. A few of these typical practices would be of interest, but the drug and cosmetic industries are more particularly concerned with Sec. 12 and 13. These read as follows:

Sec. 12. (a) It shall be unlawful for any person, partnership, or corporation to disseminate, or cause to be disseminated, any false advertisement—

(1) By United States mails, or in commerce by any means, for the purpose of inducing, or which is likely to induce, directly or indirectly, the purchase of food, drugs, devices, or cosmetics; or

(2) By any means, for the purpose of inducing, or which is likely to induce, directly or indirectly, the purchase in commerce of food, drugs, devices, or cosmetics.

[2] *Drug Trade News*, Mar. 12, 1945.

(b) The dissemination or the causing to be disseminated of any false advertisement which in the provisions of subsection (a) of this section shall be an unfair or deceptive act or practice in commerce within the meaning of section 5.

Sec. 13. (a) Whenever the Commission has reason to be believe—

(1) that any person, partnership, or corporation is engaged in, or is about to engage in, the dissemination or the causing of the dissemination of any advertisement in violation of section 12, and

(2) that the enjoining thereof pending the issuance of a complaint by the Commission under section 5, and until such complaint is dismissed by the Commission or set aside by the court on review, or the order of the Commission to cease and desist made thereon has become final within the meaning of section 5, would be to the interest of the public.

The Commission or any of its attorneys designated by it for such purpose may bring suit in a district court of the United States or in the United States court of any Territory, to enjoin the dissemination or the causing of the dissemination of such advertisement. Upon proper showing a temporary injunction or restraining order shall be granted without bond. Any such suit shall be brought in the district in which such person, partnership, or corporation resides or transacts business.

What constitutes false advertising is set forth in Sec. 15 (a) on page 104:

Sec. 15. (a) The term "false advertisement" means an advertisement, other than labeling, which is misleading in a material respect; and in determining whether any advertisement is misleading, there shall be taken into account (among other things) not only representations made or suggested by statement, word, design, device, sound, or any combination thereof, but also the extent to which the advertisement fails to reveal facts material in the light of such representations or material with respect to consequences which may result from the use of the commodity to which the advertisement relates under the conditions prescribed in said advertisement, or under such conditions as are customary or usual. No advertisement of a drug shall be deemed to be false if it is disseminated only to members of the medical profession, contains no false representation of a material fact, and includes, or is accompanied in each instance by, truthful disclosure of the formula, showing quantitatively each ingredient of such drug.

Just what it covers is to be discovered only by continually following the stipulations of the commission as found in their cease-and-desist orders accepted or sustained, since each complaint coming before the commission is considered on its merits. Stipulations to cease and desist which have been accepted by respondents or sustained by the courts cover the following:

1. Misrepresentation of therapeutic properties of drugs, cosmetics, and devices.
2. Failure to reveal possible harmful effects of drugs, cosmetics, and devices.
3. Misrepresenting products as being designed or approved by physicians or dentists.
4. Misrepresenting effectiveness of product.
5. Misrepresenting domestic products as imported.
6. Failure to disclose the dangerous character of a product.

Under these circumstances you may not advertise your product as curing when it does not; you may not claim that your soap or cosmetic will kill germs when it will not. There is, however, nothing in the act or the stipulations which prevents you from saying it will cure when you have sufficient evidence that your product does cure. You may say it will relieve when it does. Or you may advertise your product for sale and say nothing about what it will do. By way of examples: a producer of a headache cure says merely: "If you have a simple headache take X brand of headache powder. Use only as directed. If headaches persist see your doctor." A well-known cough drop simply states, "Don't cough, X Brand Cough Drops, Don't Spread Germs." The inference, we suppose, is that neither will happen if those cough drops are consumed. A well-known laxative is advertised on the basis that if you are over 35 years old it is better for you than oils or salts, but stating in what way or why it is better or just what it does is taboo. You may say a product soothes, as in the case of an ointment applied to a burn, and urge its use provided there are no deleterious aspects to the products so advertised. So long as your advertising does not cheat, deceive, or fool anyone it would seem to meet the requirements of the act.

Cases come before the commission either by complaint of competitor or consumer or as the result of examination of advertisement by the Commission's Radio and Periodical Division. This division examines hundreds of thousands of advertisements annually in newspapers and magazines. They read almanac advertising, mail-order catalogs, and over 2,000,000 pages of radio script.

The commission has been negotiating stipulations that inhibit the publication of advertisements that do not disclose the probably harmful effects of the product. "In lieu of the publication in the advertising of a full statement of such harmful effects, these stipulations permit the publication of the statement, 'Caution: Use Only As Directed,' if and when the directions for use which appear on the label or in the labeling carry an adequate disclosure of the probable harm."

These stipulations have the effect of commission supervision of labels and result in a double supervision of labels, which may be costly and confusing to businessmen. Under this ruling, it would seem, a satisfactory decision on a label by the Food and Drug Administrator may be nullified by the commission.

Considerable objection by businessmen in the drug and cosmetic industries has been registered against this extension of the commission's conceived duty. As a result a bill has been introduced into the United States Congress by Representative B. Carroll Reece to clarify the law in this and other matters. The bill is H.R. 2390 and it has three objectives:[8]

[8] *Business Week*, Mar. 24, 1945.

1. To afford effective judicial review of the Commission's cease-and-desist orders.
2. To limit the aggregate amount of penalties which may be assessed for a single notation of Commission's orders.
3. To avoid conflict with the Federal Food, Drug, and Cosmetic Act by defining more clearly the Commission's jurisdiction as to foods, drugs, devices, and cosmetics.

The new bill would oblige the federal circuit courts to sustain the commission on a "preponderance of the evidence" as against the present law which requires "evidence" only. The new bill would limit fines to $1000 for each offense with a maximum fine of $10,000 for violation of an order after it became final. Under the present law the penalty runs up to $5000 for each offense. Since "each publication of an ad is a separate offense the sky is the limit" says *Business Week*. The third objective is to control the dual supervision over labeling that is now in the course of becoming implemented.

Most businessmen are honest and desire to obey the laws of the land. It is probably safe to say that the leaders in production and sale of drugs and cosmetics lean over backward to conform to the law. But apparently under the Federal Trade Commission Act there can be many borderline cases. In the analysis of borderline advertisements during the year 1942–1943 involving 2362 commodities the Federal Trade Commission reports that 48 per cent were drugs and 17.1 were cosmetics.[4] There would seem to be need of clarification of the law and close study by businessmen in those industries to avoid unnecessary action by the commission and loss of prestige by the trade.

This clarification of the law is now in process. In December, 1946, the Federal Trade Commission issued new rules of practice. A policy statement accompanying them pledges the Commission "(1) to cooperate with other federal agencies in fields of authority where these agencies likewise have regulatory power; (2) to refrain from instituting action involving labeling or branding where the subject matter . . . is, by specific legislation . . . a direct responsibility of another federal agency; (3) to take account . . . of the labeling requirements of the Food and Drug Administration in correcting false advertising; and (4) to take action against advertisers only when the omission of material facts would result in serious danger to users or impair public health."[5] Just what is meant by this policy statement will be discovered as cases are decided by the Commission. It probably will not prevent the passage of the Reece Bill by the 80th Congress which will then really clarify the present situation.

[4] *Annual Report*, Federal Trade Commission, year ending June 30, 1943.
[5] *Business Week*, December 28, 1946.

Business should also know that after complaints are filed the fullest opportunity is offered the respondent to justify his actions and that he may be represented at hearings by counsel qualified to appear before the commission. If the commission after proper hearing finds respondent guilty they issue a cease-and-desist order stipulating what respondent is to refrain from doing in the future. Sixty days after issue the order becomes final unless meanwhile the respondent files a petition for review before the United States Circuit Court of Appeals. After hearing by the court the order becomes final if the commission is sustained, unless a petition for certiorari is made to the Supreme Court. The order then becomes final 30 days after the decision of the Supreme Court if the commission is sustained. Any of the courts on review may order a change in the commission's order or dismiss it altogether if in the opinion of the court the evidence so warrants.

ADMINISTRATION OF FOOD, DRUG, AND COSMETIC ACT

The producers and distributors of drugs, cosmetics, and devices must pay considerable attention to the Food, Drug, and Cosmetic Act of 1938 because of its effects on the production and sale of their products. The act "is designed to regulate interstate, import and export commerce in food, drugs, devices, and cosmetics to secure consumer protection from the abuses that exist in these industries."[6]

In addition to the important purpose of protecting the consumer in these fields the act is a penal statute, violation of which may result in heavy fines and prison terms. Conviction on a first violation may result in a $1000 fine and/or imprisonment up to one year and for a second violation or a violation involving intent to defraud a fine up to $1000 and/or 3 years in prison may be assessed by the court. Legitimate businessmen must also reckon with the loss of good will among customers and prospects that may flow from a conviction, especially so if they are heavy shippers to foreign markets.

Other methods of enforcement may be applied. Products that violate the act may be seized and injunctions to restrain repetitions of dangerous violations may be secured from the proper court. Finally the producers and sellers of drugs, cosmetics, and devices should know that the educational period to acquaint the trade with the provisions of the act is over. The administration is now cracking down and as cases come into the courts the prosecuting attorneys of the Attorney General's office are asking for the imposition of stiff penalties.

[6] This discussion of the act is based largely on lectures given by W. R. M. Wharton, Eastern District, United States Food & Drug Administration at New York University, Oct. 30, 1944 and April 9, 1945.

Wharton's analysis of the act suggests that among other things prosecutions may result because of the following:

1. Sections 501(a)(1) and 601(b) of the Act declare drugs, devices, and cosmetics to be deemed to be adulterated if they consist in whole or in part of any filthy, putrid, or decomposed substance. This Section applies to products which have been rendered filthy by contamination, for example, with insects and ravages of rodents, or by decomposition or molding, as well as to those which are inherently filthy. Products become filth contaminated, putrid, or decomposed as a result of deterioration or improper storage. This Section is very frequently invoked to safeguard soundness and usability of drugs.

2. A drug, device, or cosmetic is declared to be adulterated (501(a)(2) and 601(c)) if it has been prepared, packed, or held under insanitary conditions whereby it may have been contaminated with filth, or whereby it may have been rendered injurious to health. This provision of the law is frequently invoked in the interest of public protection.

3. Under Section 501(a)(3) and 601(d). A drug, device, or cosmetic is declared to be adulterated if its container is composed in whole or in part of any poisonous or deleterious substance which may render the contents injurious to health.

4. Section 501(a)(4) and 601(e). A drug or device or cosmetic is declared to be adulterated if it bears or contains, for purpose of coloring only, a coal-tar color other than one from a batch that has been certified in accordance with regulations as provided in the law. This provision is intended to prevent the use of dangerous coal tar colors. In the case of cosmetics, hair dyes are exempted. To illustrate the practical effect of this provision, I shall refer to a very recent action begun against a color manufacturer of New York City. Investigation disclosed this firm was selling to cosmetic manufacturers two uncertified and uncertifiable dyes, namely, C. I. No. 17 (Amino-azo-toluene) and C. I. No. 19 (Dimethyl-amino-azobenzene), notwithstanding that these colors are known to have carcinogenic properties and have been proved capable of producing cancer when applied to the skin of experimental animals. Temporary injunction has been granted to prevent further distribution in the channels of trade of these colors by the Company, and seizures were made of a number of cosmetics in which these dyes were used. Prosecution is pending against a number of cosmetic manufacturers who employed these dyes illegally and in wanton disregard of the dangers involved.

5. Section 501(b). The law declares a drug to be adulterated if it is represented as a drug, the name of which is recognized in an official compendium (United States Pharmacopeia, Homoeopathic Pharmacopeia, and National Formulary), if strength, quality, or purity falls below the standard of strength, quality, or purity set within such compendium.

6. This provision of the law and its companion 501(c), a provision which declares a drug to be adulterated if its strength differs from or its purity or quality falls below that which it purports or is represented to possess, are very, very frequently brought into use both in the case of shortages of important active ingredients and in the case of excesses of active ingredients, both of which in some cases render products dangerous.[7]

7. Section 502(a). A drug or device is deemed by the law to be misbranded if its labeling is false or misleading in any particular. This is the provision of the law most frequently invoked as it applies in particular to false and misleading claims of therapeutic value, and in this connection Section 201(n) of the Act must

[7] A physician must know the strength of the drug he is using. In some cases too much of an ingredient may be harmful, even lethal, whereas too little may not give the desired result and so fail to cure. A producer selling a product where too much or too little may have undesired effects must take the necessary steps to mix properly and fill his packages correctly so that only the amount shown on the package is contained in it.

be taken into consideration, for this Section directs, when alleging an article to be misbranded because the labeling is misleading, taking into account, among other things, not only the representations made, but also the *extent* to which the labeling *fails* to reveal facts material in the light of such representations, or material with respect to consequences which may result from the use of the article to which the labeling relates under the conditions of use prescribed in the labeling and under such conditions of use as are customarily used.

I have a package in my hand which illustrates false claims made by patent medicine manufacturers in the long ago before regulation of their labels became effective. The label reads: "Dr. Warren's Wild Cherry and Sarsaparilla Trokies, an Unfailing Remedy for Coughs, Colds, Bronchitis, Catarrhal Affections, Consumption and all Lung Diseases. American Medicine Company, Manchester, New Hampshire." No longer is it possible for any extended time to mislead the public with such foolish and impossible assertions.

8. Section 502(a)(1) and 602(b)(1). Drugs, devices, and cosmetics are defined as misbranded if in package form and they fail to bear the name and place of business of the manufacturer, packer, or distributor; and an accurate statement of the quantity of the contents in terms of weight, measure, or numerical count. This is one of the informative branding requirements of this Act. Charges under this provision are quite frequently brought in relation to short weight and short measure practices. The failure to declare the name and address of the manufacturer, packer, or distributor is charged usually in conjunction with other charges.

9. Section 502(d). The Act declares a drug or device to be misbranded if it contains certain named narcotic or hypnotic substances which are habit-forming unless the label bears the name and quantity or proportion of such substance or derivative and in juxtaposition the statement, "Warning—May be Habit Forming." A number of cases have been brought under this prohibition. The best way to illustrate the effect of this provision is to do so in a positive way. I show you two packages of Winthrop's LUMINAL; one represents the label before this provision became effective, the other the label after this law was passed. The first reads on its face: "100 Tablets Luminal, Brand of Phenobarbital." The second reads: "100 Tablets, Luminal, Brand of Phenobarbital, Warning, May be Habit Forming." This informative label requirement is of course intended to put users on notice that they should exercise the necessary care in the use of such drugs. There is also a CAUTION LABEL on the current package of Luminal which takes it out of the channels of indiscriminate sale, which requirements of the law applicable will be later referred to.

10. Section 502(e). The law specifies that a drug or device shall be deemed to be misbranded if it is not an official drug, when the labeling fails to bear the common name of the drug, and, in case of products fabricated from two or more ingredients, fails to declare the common or usual name of each active ingredient. This section also requires proportion declaration of bromides, acetanilid, aminopyrine, atropine, and other dangerous substances given by name and any derivative or preparation of such substances.

In some cases, it sometimes happens that a firm will declare as active ingredients constituents of drugs which by no stretch of the imagination can have any active effect. This constitutes a violation.

The requirements for cosmetics do not include ingredient declaration.

A great many actions have been brought under this section. For example, Notice of Judgment No. 642 reports the case of seizure of a product labeled as "Diaplex." Analysis of the article showed it to consist of the salt bush plant. Here it was the purpose apparently of the distributor to clothe this product with a fancy name and thus disguise it.

Notice of Judgment No. 664 reports the case of seizure against a product sold under the trade name of "Respirine." Among the charges against this product

was included failure of the article to bear a statement of quantity or proportion of belladonna alkaloids that it contained. Of course, atropine, mentioned in the law, is an alkaloid of belladonna.

Notice of Judgment No. 643 covers a product labeled: "Quinine Hair Tonic"; the charge, among others, was brought that the article failed to bear the common or usual names of the active ingredients and that the label failed to bear an accurate statement of the quantity of contents.

11. Section 502(f). The drug chapter of the Act specifies that a drug or device shall be deemed to be misbranded unless its labeling bears adequate directions for use and such adequate warnings against use in those pathological conditions or by children, where its use may be dangerous to health, or against unsafe dosages or methods on duration of administration or application, in such manner and form as are necessary for the protection of users. This is one of the most important mandatory requirements of this Act, and it is one which has been frequently violated. In connection with its interpretation, Section 201(n) must be held constantly in mind. This, as I have told you, requires revelations of material facts as to the consequences which may result from the use of articles. Section 502(j) must also be considered. This declares a drug or device to be misbranded if it is dangerous to health when used in the dosage or with the frequency or duration prescribed, recommended, or suggested in the labeling thereof, but it should be remembered that the law itself exempts from declaration of adequate directions for use when these are not necessary for the protection of the public health. Under this exemption a regulation allows exemption from declaration of adequate directions for use, when the product is made for exclusive use on prescription of physicians, dentists, or veterinarians and the label bears caution to this effect. Such exemption is not provided for warnings. Warnings must be made no matter what the distribution intended may be.

It has been determined that certain drugs are too dangerous for use under any circumstances. Among these are dinitrophenol, dinitrocresol, diethylene glycol, and a device known as lead nipple shields. I will show you a specimen of this device. It was formerly employed as a shield for protection in the case of cracked nipples of nursing mothers. Being made of lead, a reaction of the lead with the mother's milk occurs forming lead lactate, and frequently this caused death of nursing children by lead poisoning. Numerous actions have been taken against these products, and they are believed to be now entirely off the market.

Dinitrophenol and its companion product, dinitrocresol, have been the cause of many deaths; they cause cataracts and blindness, they burn up fat by causing runaway metabolism, and undermine health.

Prior to the passage of the law which we have under consideration, these dangerous drugs were quite extensively sold as cures for obesity. I show you a package which was put out by Weight Controls, Inc., New York City, as late as 1938. The product is labeled: "Weight Controls." These capsules contain dinitrocresol. Investigation by the Food and Drug Administration showed that this item caused blindness and death under pitiful circumstances. One of the proprietors of the Company itself took the article for obesity and was blinded. Among the many injured users was a mother with two young children who died with the children on either side of her in bed. Under the old law nothing could be done by the Federal Government in this situation, as there was no prohibition against the sale of dangerous drugs. Now, however, this firm and all others who were engaged in this dangerous business have folded up.

Diethylene glycol was used as a solvent in the famous Massengill Elixir Sulfanilamide catastrophe, involving the death of more than 100 people. This firm was prosecuted and fined $26,100.

There are a great many drugs which are dangerous for use except when employed under strict medical supervision. These include aminopyrine barbiturates, cantharides, cincophen, the sulfa drugs, thyroid, and many others. Such drugs

are required to be labeled with the prescription legend previously referred to as exempting products from declarations for use, and they are required to be sold only on prescription. The product "Luminal," to which I have previously referred as being a barbiturate and required to be labeled "May be Habit Forming," is also required to be labeled "Caution—To be used only bv or on the Prescription of a Physician, Dentist, or Veterinarian."

12. Section 502(i)(1) and 602(d). The law declares a drug or cosmetic to be misbranded if its container is so made, formed, or filled as to be misleading. This means that products may not be packed so as to give a larger size or quantity or value appearance than that actually present. There are many ways in which packages may be made to appear larger or more valuable than they are actually.

The act defines "labeling" as including all printed matter accompanying any article. This appears to mean all inserts in package and booklets that may be used at point of sale to aid in or induce the sale of the product. Rulings by the federal courts indicate that the inserts or booklets need not have accompanied the product so long as they were used to aid in or induce the sale of the product. Under these circumstances whatever has been said in the discussion as applying to labels also applies to the inserts.

The act also provides that colors used in the production or preparation of drugs and cosmetics must be certified for such use by the administration. This is to prevent the use of colors the chemical content of which might have injurious effects when the product is used. The act provides too for the receipt of applications for new drugs, which are then examined to determine the accuracy of the claims made for the safety of the new product. A new drug may not be introduced or delivered for introduction into interstate commerce before it has been accepted by the Federal Security Agency.[8] However, a limited distribution of a new drug may be made for investigational use by experts qualified to investigate the safety of drugs. This provision was made to prevent calamities such "as occurred when diethylene glycol was used in Elixir Sulfanilamide without adequate scientific testing to determine its safety."

An amendment was added to the act in 1941, the latter part of which gives the administration complete control over the manufacture of insulin and drugs containing insulin. The amendment prohibits the distribution of insulin-containing drugs that have not been certified according to provisions it outlines and to regulations to be promulgated by the Federal Security Administrator.[9] The regulations have been issued by the administration and all insulin-containing drugs must now be submitted for assay following which approval must be secured from the administration before they can be marketed.

The administration is an effective agency in its supervision of the drug and cosmetic industries. During the years 1941–1942 and 1942–1943 it

[8] *The Food and Drug Administration,* Federal Security Agency.
[9] *Annual Reports,* Food & Drug Administration, 1941 to 1943, p. 7.

collected and inspected samples and lots to the number of over 98,000, of which drugs and cosmetics accounted for over 21,000 items.[10] During the two years they secured samples on which criminal prosecutions were based to the number of 566 drugs and devices and 14 cosmetics. The number of seizures made in drugs and devices was 542 and in cosmetics 17 and the number of injunctions secured totaled 10.

The Food and Drug Administration is continually in the process of extending its authority over the marketing activities concerned with foods, drugs, devices, and cosmetics. Recent federal court decisions enable the Administrator to supervise advertising of such products. For example, if in the advertising of a drug, directions for use are given, this is now regarded as in effect labeling and it becomes subject to all the rules governing mislabeling.[11]

If goods covered by the Act are shipped only in intrastate commerce, or if goods come to rest in a particular locality and are then in intrastate commerce, the Administrator is attempting to apply the federal law to those conditions. Cases covering them are now before the higher federal courts.[12] Previous federal court decisions suggest that the Administrator might win the cases. This eventuality would seem to mean that the sale of all foods, drugs, devices, and cosmetics are subject to the federal act no matter how shipped, by whom held, or the conditions surrounding the sale, storage, and use of the products.

Like Federal Trade Commission actions violations have been found among concerns of high and low degree and as in the case of Federal Trade Commission many of the violations have not been intentional. They occur unknown to the management or they are borderline cases. They do suggest, however, that in situations as complicated as these involving laws like these, businessmen must be on their guard literally day and night to prevent violations the exposure of which may have profound effects on their business enterprises. There can be no let-up by businessmen even in the future because we are likely to have more rather than less regulation by Government in these fields.

10 *Ibid.*, p. 53.
11 Reported in *Business Week*, Nov. 23, 1946.
12 Reported in *Business Week*, Nov. 9, 1946.

QUESTIONS

The questions which follow for each chapter are intended to give the reader a brief summary of the important problems that any interested individual is likely to encounter. Those who are using the volume as a textbook will have many other questions come to mind and these may be used by the instructor to fit his particular teaching situation.

A practical method in developing classroom study on this subject is to set a term problem of originating, developing and marketing a hypothetical product. Other problems might be developed as, for examples: How should a drug house with a large capital, or one with a small capital, organize for marketing its products; how should a proprietary house appeal to a mass market, and prepare a sales promotional campaign for a cosmetic manufacturer. In these latter two problems students should plan on the use not only of "mass" advertising media, but of all types of sales promotional and merchandising devices so widely used in these fields.

In making their reports students should be encouraged to prepare a formal portfolio which fully covers the ground he has been working.

Chapter 1

1. Why is it more proper to speak of people as the market rather than dealers?
2. What are the effects of age and sex on the markets for drugs and cosmetics?
3. Is the age of the market a dynamic or static factor in the sale of medicines? How can a manufacturer of medicines use to advantage a study of age and geographic grouping in his markets?
4. What is the effect of income on the consumption of (a) drugs; (b) cosmetics?
5. What happened to the consumption of cosmetics during World War II?
6. What opportunities are open to a manufacturer to increase the consumption of medicines?
7. How could a manufacturer of either drugs or cosmetics calculate the potential market for his product?
8. What makes people buy cosmetics?
9. What is the public reaction to price on their purchase of medicine, toiletries, cosmetics?
10. What part does age play in the consumption of different cosmetic products?
11. What particular need will your product supply that is not already being supplied by an existing product?

Chapter 2

1. What is the difference between an ethical and a proprietary product?
2. What is the difference in the marketing methods?
3. State the different lines of goods which are classed as toiletries and cosmetics?

4. As a prospective manufacturer what is the first thing you should do to discover the marketability of a product?
5. What is the dealer reaction to stocking your product?
6. How would you overcome that reaction? What are the problems of substituting and counterfeiting?
7. In what way do season and climate influence the potential market for your product?
8. Is the question of fashion or style important in the marketing of curative or cosmetic products?
9. To what degree does the life of your product in consumer hands determine your sales price?
10. In what way can patents or trademarks be used to safeguard special features of your product?
11. Legally what must you remember in marketing your product?

Chapter 3

1. What are the various kinds of competition you most consider in marketing drugs and cosmetics?
2. How important is the price at which your product will sell as a competitive factor?
3. In what retail price bracket from 10¢ to $1.00 is the greatest volume of sales?
4. How do consumer prejudices affect the sale of some products?
5. How have many manufacturers introduced their line of products to the consumer?
6. As a manufacturer of a new product, would you rather the market contained many prospective competitors or just a few?
7. What is meant by the term "overstocking a dealer"? What is the dealers' attitude toward new products when they are overstocked?
8. How can discounts be used to secure wholesaler cooperation? When and where is wholesaler cooperation necessary?
9. Suppose you wanted to make and sell a cough remedy. What different products would you have to consider as competition to your products?
10. From a consideration of the tables on pages 47 and 49, what would you say are your chances of breaking into the market with a new face powder?
11. Consider the tables on page 31; then, as a manufacturer, decide on the price and place of sale that you would concentrate on to make a success of your business.
12. What are the fundamental factors that your product must have, in face of competition, to make it a success on the market?

Chapter 4

1. What is the difference in methods of drug store merchandising today and 30 years ago?
2. What is the relationship between the pharmacists and the professions of medicine and dentistry?
3. To what degree does this influence the pharmacists' reaction to new merchandise?
4. Of what importance is the chain store in drug product merchandising?
5. How and when does the chain drug store compete with the manufacturer?
6. What is the difference in the character of sales of merchandise in stores doing less than, and more than, $20,000 annually?
7. Of what effect is location on drug store merchandising?
8. What is the trading area coverage of the various types of drug stores?
9. Where and how does the wholesaler influence sales?

10. What is the relationship of drug and cosmetic advertising to publishing?
11. What have been the most recent trends in drug retailing?
12. What is the outlook for the future in drug product merchandising?

Chapter 5

1. To what extent must the manufacturer be concerned with packaging?
2. Of what importance are the materials of which packages are made?
3. Explain how the size, shape and appearance of a package play an important part in the sale of a product.
4. What legal protection is available in connection with the package one decides to use for his product?
5. Why is it so important to give consideration to the display value of a package?
6. State the factors which need to be considered to determine the size and price of package which will result in the greatest sales volume.
7. Can the cost of the packaging influence sales to any considerable extent?
8. How could you use miniature packages to increase sales volume?
9. What tests should be made before you decide to make a change in your package?
10. How can the shipping container be used as a help in making sales?

Chapter 6

1. What is the relation of stores to people as markets?
2. Compare the size of the rural market to the urban market for drugs and cosmetics.
3. How does the per capita drug store sale of the principal cities govern your marketing plan?
4. What cities would you select for wholesaler assignments to secure a good wholesale coverage of the United States?
5. What are the different types of drug stores and indicate how your sales approach should be geared to influence them?
6. In what way do the differences in the buying habits of independent dealers and chain store buyers affect sales efforts?
7. How important is the chain store market? To what extent does it dominate the urban market?
8. How can the cooperation of chain store organizations be obtained?
9. Should the same representatives of the manufacturer sell independent store owners and chain store buyers?
10. What types of chain stores other than drug handle drugs and cosmetics? How important are they?
11. How much are grocery stores and supermarkets likely to affect marketing places for drugs and cosmetics?
12. As a manufacturer, what must you do to break into the department store market successfully?
13. Why have barber shops and beauty parlors been disappointing outlets for package sales to consumers? Work out a scheme by which they might become good outlets for cosmetics for men and women.
14. How could you build up a business with institutions that are large buyers of drugs and cosmetics?
15. What is meant when we say that vending machines might be used to test markets for a product?
16. What is meant by "The type of product has an effect on the selection of proposed outlets"?
17. Why should a manufacturer give consideration to broadening the outlets for his product? What dangers does he face in such a procedure?

Chapter 7

1. How can a manufacturer arrange for almost overnight delivery service nationally when operating out of one plant only?
2. What combinations of distribution can be effected which will make possible a complete sales coverage of all possible retail outlets for one's product?
3. What are the customary ways of handling shipping charges?
4. To what extent has the present excise tax of 20 per cent hurt sales?
5. What are the generally accepted discount policies to build good will?
6. If a manufacturer decides to sell direct to retail dealers, what credit policies should be followed?
7. How can you help your dealers most efficiently when you sell them direct?
8. What should the return goods policies be for most manufacturers?
9. How could manufacturers cooperate to reduce the return of goods and thus reduce operating costs?
10. How far should one go in being flexible as to marketing policies?

Chapter 8

1. What type of salesmen are needed to sell drugs and cosmetics? How are they selected?
2. What can you do to prevent too great a turnover of salesmen in these fields?
3. What influence has the possible calls that salesmen can make on the method of allocating territories?
4. Is it always necessary to have a sales force?
5. What are manufacturers' sales agents? When and how would you use them?
6. What principles would you follow in selecting such agents?
7. What equipment should your salesmen be given to do a successful selling job?
8. What essentials are required in a salesman's portfolio? How would you instruct him to use it?
9. What forms of compensation are used in selling drugs and cosmetics? Which is the most prevalent? What is the affect of type of goods sold on the kind of compensation?
10. How can salesmen be stimulated to do a good job of selling by means other than a money consideration?
11. How large should the advertising department be in any concern?
12. What is the job of the sales promotion department?

Chapter 9

1. In laying out your marketing plan, what consideration should be given to price policies? Explain.
2. What part would price maintenance play in your decision to question 1? (See Chapter 17.)
3. Show how your advertising should be related to the distribution of your product to dealers.
4. What training should be given to your salesmen in connection with your marketing plan?
5. Can you also train the wholesalers' salesmen? How?
6. In using free goods to introduce a new product to consumers, certain disadvantages are encountered. What are they?
7. How would you follow up the introduction of free goods?
8. What part does the use of demonstrators play in some marketing plans? If demonstrators are not possible in a particular plan, how could you make use of the retailers' clerks to push your product?
9. State the principles which should be followed when soliciting business from dealers.

10. Wherein does house-to-house selling differ from manufacturer-to-retailer selling? Would it be wise for a manufacturer to use both channels of distribution for the same products?

11. What problems need to be solved for successful house-to-house selling?

12. Why do many people try mail order selling?

13. Recapitulate the factors important to a marketing plan or campaign.

Chapter 10

1. What is a free goods deal? How many different types of them are used?

2. How are free deals used to introduce a new product or new goods to a dealer?

3. Why does the Federal Trade Commission object to the so-called "free deal"? Are they really "free"?

4. Why are retail dealers generally antagonistic to "free" deals? Is it possible to reconcile the points of view of manufacturers and dealers?

5. If the "free" deal is intended to secure dealer cooperation, and is objectionable, what other means would you suggest?

6. What are the disadvantages of deals? Do they cause the dealer to push certain products?

7. What should be done to secure wholesaler cooperation on "free" deals?

8. Are "free" deals on the increase or decline?

9. What are the advantages of deals to retailers and consumers? How can these advantages be presented to retailers so that they will go along willingly and enthusiastically to increase sales?

Chapter 11

1. Why is it desirable to secure the cooperation of the retail dealers in the sale of your product even though you advertise extensively, either sectionally or nationally?

2. What was the essential feature of the Rexall plan? Of the American Druggists plan?

3. How did the Ex-Lax plan differ from the Rexall and American Druggists plans?

4. How does the Eli Lilly plan differ from the others?

5. Why is it that none of the plans discussed can secure from the dealer the 100 per cent cooperation usually hoped for?

6. Work out some special concession which you, as a manufacturer, might offer dealers to secure substantial cooperation from them.

7. How can a manufacturer secure cooperation from chain store organizations and leading department stores?

8. How can retailers secure the price benefits of manufacturer cooperation through their own efforts?

Chapter 12

1. How are the drugs and cosmetic trades organized for cooperative action?

2. What are the leading associations in the field and how important is each of them to the industry?

3. How can a manufacturer use the various trade associations to build good-will among wholesalers; among retailers?

4. To what extent do manufacturers support wholesale and retail trade associations?

5. How are manufacturers sometimes benefited by the discussions at trade association meetings—retailers' meetings for example?

6. How beneficial is it for manufacturers to reach dealers through their trade papers?

7. Compare the use of the mails for sales promotion efforts with those of trade papers—either association or privately owned.
8. To what extent can a manufacturer expect a wholesaler selling his line to co-operate with him on mailing pieces?
9. What are the characteristics of a good mailing piece?
10. Would it be better for a large manufacturer to develop a good house organ rather than to use mailing pieces and advertising in trade papers? Explain why or why not.

Chapter 13

1. Explain the difference between retailer "free deals" and consumer combination offer.
2. How is the one-cent sale used and what benefits flow from it?
3. Why did the druggist object to combination deals? How can such deals be made into profitable ones?
4. Does the consumer combination actually offer merchandise free? What is the reaction of the consumer to it?
5. What is the relation of such offers to the prices of the products involved in the deal?
6. Does a combination offer give a permanent stimulus to sales?
7. Suppose you are introducing a new product. Show how you would use both "free deals" and consumer offers to do so successfully?

Chapter 14

1. What is the relation of advertising expenditures to overall marketing costs in the drug and cosmetic industries?
2. How can you test advertising copy to be sure that it is effective?
3. Should you establish your own advertising department or make use of an advertising agency? If you use an agency, on what basis would you select one?
4. Discuss fully the kind of service you should expect to receive from an agency.
5. How and where would you advertise to physicians? What part does sampling play in this? How would you arrange to distribute samples?
6. What products can be sampled to consumers? How can this be done most effectively and economically?
7. State under what conditions and for what type of products magazine advertising would be preferable to newspaper, or vice versa.
8. Explain how you can determine the size of advertising space to use most economically and effectively.
9. Which is now most effective in advertising drugs and cosmetics, radio or periodicals? What is at present the trend in such advertising expenditures?
10. How is the retailer affected by radio advertising? Compare this with the effect on him of the commonly accepted form of national advertising in magazines and newspapers.
11. Why should the media you propose to use be analyzed as carefully as you would analyze copy?
12. Is "stunt" advertising good advertising for a drug manufacturer? A cosmetic manufacturer?
13. List other types of media which are used in advertising drugs and cosmetics. Which of these would be best to combine with other media for effective selling?
14. Is there such a thing as a copy "style" or "trend" in advertising such important products as medicines?
15. What part does the Federal Trade Commission play in the copy that manufacturers of drugs and cosmetics may use?

Chapter 15

1. What is meant by the terms permanent, semi-permanent and temporary displays?

2. Why are such displays used by manufacturers? What tests can you refer to which would seem to justify the expenditures of funds for such purposes?

3. What does the Point of Purchase Advertising Institute claim for display advertising in drug stores?

4. Is the initial cost of a permanent display the thing that is most important in their use?

5. What kind of window displays seem to be most desired by drug store owners? Who should dress the windows, the owner or an agent of the manufacturer?

6. How can waste be avoided in the use of display materials? Is it worth while to engage the services of independent display service companies?

7. What is meant by circulation in the case of window displays? What important factor should be considered in connection with circulation?

8. What types of display materials are most popular with druggists? How do druggists like to display products?

9. How can the package of a product be best used for display purposes?

10. Lay out a plan for a product you select showing how the materials in Chapters 14 and 15 can be used to promote the product to best advantage to the consumer.

Chapter 16

1. Distinguish between the lay and professional markets?

2. Is the market for ethical products more important than proprietaries from the point of view of volume or profits?

3. How would you plan for marketing sale of an ethical drug product?

4. What is the difference between an ethical and a proprietary product?

5. What is the relation of the United States Pharmacopeia to ethical drug products?

6. How is the Food, Drug and Cosmetic Act of 1938 related to the sale of ethical products?

7. Where and how can ethical products be advertised?

8. What are the financial handicaps in planning to market an ethical product?

9. What are the qualities of a good detail man?

10. What suggestions could you make to a druggist to build up the ethical drug sales?

11. How important is the medical or dental doctor in developing an ethical drug business?

Chapter 17

1. Why were drug store owners interested in securing the legislation known as price maintenance laws?

2. What price policies must be followed in interstate trade by manufacturers because of the passage of the Robinson-Patman Act?

3. What part is played by the Federal Trade Commission in the enforcement of the Robinson-Patman Act?

4. Under price maintenance acts how can the manufacturer prevent price-cutting on his product?

5. What is a loss leader? To what extent have they been eliminated in drugs and cosmetics?

6. Compare retail prices of proprietaries and non-proprietaries and indicate what the comparison suggests as to price policies of the future.

7. What are the devices resorted to by dealers to enable them continually to cut prices to justify the boast that they are "cut-price" stores? Are such stores desirable customers for manufacturer's products?
8. How are price contracts under "fair-trade" laws enforced? How does one steer clear of violation of the Sherman Anti-trust Act in the course of enforcement of such acts?
9. To what extent is a retailer restricted as to his price policies by law?
10. What is the effect of the Miller-Tydings Act?
11. What is meant by resale price maintenance?
12. What caused the agitation for passage of the Miller-Tydings Act?
13. What effect did price cutting have on retailers merchandising of manufacturers lines thus used?
14. How did manufacturers first try to eliminate price cutting on their lines?
15. What is consumer reaction to price cutting legislation?
16. What was the effect of retailer switching on advertised brand lines?

Chapter 18

1. How can a newcomer reduce his manufacturing problems to a minimum?
2. To what extent does doing one's own manufacturing and having goods manufactured by trade houses affect inventory investment?
3. How does volume of sales affect cost of production?
4. In what way does cost of production affect the pricing of drugs and cosmetics?
5. What are the most common causes of failure in attempting to market drugs and cosmetics profitably?
6. What is the relationship between methods of manufacturing, size of market covered, sales and advertising plans and the amount of capital required?
7. How would you allocate your capital for various parts of operations before attempting to market a product?
8. To what extent can you use Bureau of Census reports in allocating your capital for marketing purposes?
9. What is a reasonable period of time that must elapse before your enterprise can reach the profitable stage? How long has it taken some products to reach that point?
10. To what extent do Government relations govern capital requirements for successful marketing of a drug or cosmetic?

Chapter 19

1. Into what five groups would you divide the world markets? What is the chief characteristic of each of these?
2. Arrange these markets in their order of importance to the manufacturer of (a) pharmaceuticals, (b) cosmetics.
3. What are some of the prejudices and habits of these markets which affect the sale of your products?
4. Distinguish between a merchant distributor and a manufacturer's representative in foreign markets.
5. How could you secure foreign business without securing a representative in a foreign market or sending one there?
6. Is it desirable to give sales promotion allowances to foreign buyers?
7. How would you go about developing an advertising campaign for a foreign country?
8. How is the exchange rate figured for a foreign country? Why does this play an important part in selling to foreign markets?
9. How can you check credits on your foreign customers? What are the customary methods of payment?

10. Why must you observe the shipping instructions of foreign customers to the *n*th degree?

11. Is it necessary to know the language of the country in which you want to do business? Give reasons for your opinion.

12. How can you make use of the United States Department of Commerce to begin and expand an export business?

Chapter 20

1. Define the term research and show how it can be applied to marketing.

2. What procedure is usually followed in planning and carrying out a market study?

3. What is a check list? How is it used to define the objective of your research?

4. What analysis should you make to determine the facts that are required to solve the problem?

5. What is meant by the terms internal and external facts?

6. How can you make a test to find out the efficiency of the package you would use? or the advertising copy that is suggested?

7. What considerations should apply in evaluating a previous study that seems to apply to your problem?

8. What are the objections to the use of mail interviews? to personal interviews?

9. What is the panel method of research as used by the A. C. Neilsen Company?

10. What competitive factors would you look for before putting your product on the market?

11. What is the Federal Census of Business and how can it be used in evaluating competition?

12. If sales of wholesale drug houses fluctuate as does the national income, can you apply the same yardstick to your particular drug business?

Chapter 21

1. Why is it so important that there be a considerable amount of governmental regulation of drugs and cosmetics?

2. What is meant by the term interstate trade; intrastate trade?

3. Can grocery stores sell drug products? Explain fully your answer, if yes or no, and where?

4. What general regulation is applied by the Federal Trade Commission to drugs and cosmetics? What is a cease and desist order?

5. What constitutes false advertising under the Federal Trade Commision Act?

6. Consult an annual report of the Federal Trade Commission and make up a list of stipulations to cease and desist on drugs, on cosmetics.

7. How may you advertise and meet the requirements of the Federal Trade Commission Act?

8. What are the principal provisions of the Reece Bill? How will they clarify the differences between the Federal Trade Commission and the Food and Drug Administration?

9. What constitutes adulteration of a drug, a device, or a cosmetic?

10. What is meant by the term false labeling as defined by the Food and Drug Administrator?

11. How is misbranding applied by the above Administrator?

12. What punishments are provided for in the Food, Drug and Cosmetic Act of 1938 for adulteration and misbranding?

13. Under what conditions may new drugs be placed on the market?

14. What is the outlook for further regulation by Federal, State and City governments in these fields?

INDEX